
Ardmore Development Authority
Financial Statements
Year-End June 30, 2013

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ARDMORE DEVELOPMENT AUTHORITY
For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ardmore Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Ardmore Development Authority (the Authority) a component unit of the City of Ardmore, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position- modified cash basis of the governmental activities and each major fund of Ardmore Development Authority as of June 30, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Correction of Error

As described in Note 12 to the financial statements, an error in the recording of grant revenue was noted. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The budget comparison information and the Ardmore Reinvestment Project Plan statement are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Ardmore Reinvestment Project Plan Statement has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2014 on our consideration of Ardmore Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
March 21, 2014

BASIC FINANCIAL STATEMENTS

ARDMORE DEVELOPMENT AUTHORITY
Government-Wide Statement of Assets, Liabilities and Net Position – Modified Cash Basis and
Governmental Funds Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
June 30, 2013

	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of Net Position</u>
<u>ASSETS</u>			
Current assets:			
Cash	\$ 4,160,243	-	\$ 4,160,243
Restricted cash	1,114,460	-	1,114,460
Partnership Investment	999,906	-	999,906
Land held for resale	1,127,027	-	1,127,027
Land and construction in progress	-	432,456	432,456
Capital assets, net of accumulated depreciation	<u>-</u>	<u>38,415,164</u>	<u>38,415,164</u>
Total Assets	<u>7,401,636</u>	<u>38,847,620</u>	<u>46,249,256</u>
<u>LIABILITIES</u>			
Current liabilities:			
Escrows and amounts payable	1,141,539	-	1,141,539
Long-term liabilities			
Due within one year	-	2,551,582	2,551,582
Due after one year	<u>-</u>	<u>6,614,246</u>	<u>6,614,246</u>
Total liabilities	<u>1,141,539</u>	<u>9,165,828</u>	<u>10,307,367</u>
<u>FUND BALANCE/NET POSITION</u>			
Fund balances:			
Nonspendable	1,127,027	(1,127,027)	-
Restricted for Debt Service	1,114,460	(1,114,460)	-
Unassigned	<u>4,018,610</u>	<u>(4,018,610)</u>	-
Total fund balances	<u>6,260,097</u>	<u>(6,260,097)</u>	
Total liabilities and fund balances	<u>\$ 7,401,636</u>		
Net Position:			
Net Investment in Capital Assets		29,681,792	29,681,792
Restricted for:			
Debt Service		1,114,460	1,114,460
Nonexpendable Land held for Resale		1,127,027	1,127,027
Unrestricted		<u>4,018,610</u>	<u>4,018,610</u>
Total Net Position		<u>\$ 35,941,889</u>	<u>\$ 35,941,889</u>

The accompanying notes are an integral part of the financial statements

ARDMORE DEVELOPMENT AUTHORITY
Government-Wide Statement of Revenues, Expenses and Changes
in Net Position- Modified Cash Basis and
Governmental Fund Statement of Revenues, Expenditures and
Changes in Fund Balances – Modified Cash Basis
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>General Fund</u>	<u>Adjustments (Note 8)</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Economic development	\$ 2,018,562	\$ 1,421,639	\$ 3,440,201
Capital Outlay	315,013	(315,013)	-
Debt service			
Principal	2,439,787	(2,439,787)	-
Interest and other charges	<u>593,447</u>	<u>-</u>	<u>593,447</u>
Total Expenditures/Expenses	<u>5,366,809</u>	<u>(1,333,161)</u>	<u>4,033,648</u>
Program Revenues			
Charges for Services	1,925,873	-	1,925,873
Operating Grants and Contributions	<u>2,003,641</u>	<u>-</u>	<u>2,003,641</u>
	<u>3,929,514</u>	<u>-</u>	<u>3,929,514</u>
Net program expense			<u>(104,134)</u>
General Revenues:			
Investment income	2,328	-	2,328
Oil and Gas Royalties	2,036,477	-	2,036,477
Miscellaneous	349,496	-	349,496
Debt Proceeds	<u>1,833</u>	<u>-</u>	<u>1,833</u>
Total general revenues and transfers	<u>2,390,134</u>	<u>-</u>	<u>2,390,134</u>
Excess of revenues and transfers in over expenditures and transfers out	952,839	(952,839)	
Net Change in Net Position		2,286,000	2,286,000
Fund Balance/Net Position:			
Beginning of Year, as restated	<u>5,307,258</u>	<u>28,348,631</u>	<u>33,655,889</u>
End of Year	<u>\$ 6,260,097</u>	<u>\$ 29,681,792</u>	<u>\$ 35,941,889</u>

The accompanying notes are an integral part of the financial statements

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies

The Ardmore Development Authority (Authority) is a trust created under an indenture dated April 15, 1964, as amended, pursuant to Title 60 of the Oklahoma Statutes, section 176, et seq., with the City of Ardmore, Oklahoma named as the beneficiary. The purpose of the Authority is to provide funds for the costs of financing industrial development as authorized by the Industrial Development Statutes. The Authority is authorized to construct or acquire industrial parks and industrial plant buildings, including sites and other necessary property and appurtenances, and to acquire, construct, improve, operate, maintain, and provide improvement and services as necessary. It is also authorized to sell, lease, or otherwise dispose of, by suitable and appropriate contract, all or any part of and industrial plant site, industrial plant building, or other property owned by the Authority. The Authority manages three industrial parks and the Ardmore Airport.

A board of trustees consisting of nine members governs the Authority. The trustees are appointed by the city council of the City of Ardmore.

The Authority is a component unit of City of Ardmore. Its financial statements are included in the City's financial report as a discretely presented unit.

Reporting Entity

The Authority's basic financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The Authority is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Ardmore Development Authority has no component units.

Basis of Presentation Government-Wide and Fund Financial Statements

Government-Wide Financial Statements. The government-wide financial statements include the statement of assets, liabilities and net position – modified cash basis and the statement of revenues, expenses and changes in net position – modified cash basis to report information on all of the activities of the Authority.

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Presentation Government-Wide and Fund Financial Statements (continued)

The statement of assets, liabilities and net position - modified cash basis reports both short and long-term assets and liabilities specifically including capital assets acquired by the Authority.

The statement of revenues, expenses and changes in net position –modified cash basis demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include rents and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead *as general revenues*.

The government-wide financial statements of the Authority are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenses at the date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Escrow accounts and grant amounts that have not met recognition rules are shown as liabilities
- Long-term debt is recorded when incurred.

Government Fund Statements. The government funds statements include a statement of assets, liabilities and fund balance-modified cash basis and a statement of revenues, expenditures and changes in fund balance- modified cash basis. The individual funds include the general fund and the capital projects fund.

The government funds statements - use the current financial resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received. Expenditures are recorded when paid with the following modifications:

- Amounts collected as refundable deposits on leases shown as liabilities.
- Land purchased for investments shown as assets.

Investments

The Authority's funds are generally invested in (1) direct obligations of the U. S. government, its agencies or instrumentalities to the payment of which the full faith and credit of the U. S.

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies (continued)

Investments (continued)

government is pledged, (2) collateralized or insured certificates of deposit and other evidences of deposits in banks, savings and loan associations, and credit unions secured by appropriate collateral and (3) money market funds regulated by the Securities and Exchange Commission consisting of authorized domestic securities in compliance with state law. The Authority does not have a formal policy for reducing concentration of credit risk.

Restricted Assets

Certain resources of bonds payable have been set aside for their repayment. These resources are classified as restricted assets because their use is limited by applicable bond covenants. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds spent first.

Capital Assets

Capital assets, which include property and equipment, are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. If an expenditure results in an asset having an estimated useful life which extends substantially beyond the year of acquisition and exceeds \$5,000, the cost of the expenditure is capitalized and depreciated or amortized over the estimated useful life of the asset utilizing the straight-line method.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are expensed in the current year. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings and rail spur	40 years
Building improvements	20 years
Equipment	5-7 years

Net Position/Fund Balance

Government-Wide Financial Statements

When the Authority incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position/Fund Balance (continued)

because they were not used. Net Position on the Statement of statement of assets, liabilities and net position - modified cash basis includes the following:

- Net Investment in Capital Assets: The component of net position includes the Authority's capital assets (net of accumulated depreciation) reduced by outstanding balance of debt that is directly attributable to the acquisition, construction or improvement of these capital assets.
- Restricted for Debt Service: The component of net position that report restricted funds held for debt service
- Restricted for Land held for Resale: The component of net position that report the assets that are not in spendable form
- Unrestricted: The difference between assets and liabilities that is not reported as restricted for any particular purpose.

Governmental Fund Financial Statements

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Authority has classified funds restricted by debt indentures as restricted.

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position/Fund Balance (continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority does not have any funds in this category as of June 30, 2013.

- Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the management through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Authority does not have any funds in this category as of June 30, 2013.

- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Authority would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Budgets and Budgetary Accounting

For public trusts, the Oklahoma Statutes require the submission of financial information to the beneficiary. The Authority is not legally required to adopt a budget for the general fund.

Use of Estimates

The preparation of financial statements in conformity with the modified basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 2 - Cash

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

Money market funds utilized by the Authority and its trustee banks for bond indentures are regulated by the Securities and Exchange Commission, consist of obligations of the U. S. Treasury and have a credit rating of AAAM/Aaa. Fair value of cash equivalents is equal to cost.

Note 3 – Long-Term Debt

The Authority issues tax apportionment bonds to provide funds for the acquisition, renovation or construction of major capital facilities for the benefit of the Authority, the City of Ardmore and other component units of the City of Ardmore. These bonds are serviced and solely secured by the incremental property tax revenue of defined districts within the City of Ardmore.

Long-term liability activity for the year ended June 30, 2013 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Tax apportionment bonds	\$ 4,495,000	\$ -	\$ 1,040,000	\$ 3,455,000	\$ 270,000
Notes payable	7,110,615	-	1,399,787	5,710,828	2,281,582
	<u>\$ 11,605,615</u>	<u>\$ -</u>	<u>\$ 2,439,787</u>	<u>\$ 9,165,828</u>	<u>\$ 2,551,582</u>

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 3 – Long-Term Debt (continued)

Long-term liabilities at June 30, 2013, consisted of the following:

Type of Indebtedness	Purpose (Financed costs of)	Maturity	Interest Rates	Annual Installments	Original Issue Amount	Outstanding at June 30, 2013
Series 2005B Tax apportionment bonds	Water and sewer improvements TIF District	March, 2015	5.0% to 7.0%	Variable	2,925,000	\$ -
Series 2005C Tax apportionment bonds	Hanger and Runway Improvement Ardmore Airpark and sewer improvements	November, 2022	5.0% to 5.75%	Variable	4,990,000	3,455,000
BancFirst Note payable	Michelin Distribution Center	October, 2018	Variable (4.875% current)	526,252	5,300,000	2,433,634
Oklahoma Industrial Finance Authority note	Facility Expansion	October, 2013	7.50%	197,412	1,986,644	936,653
Oklahoma Development Finance Authority	Facility Expansion	October, 2013	7.50%	348,252	2,919,140	114,292
Landmark Bank Note payable	Imtec Expansion	March, 2021	7.50%	219,492	1,959,788	\$ 1,291,735
First Nation Bank & Trust Note Payable	Building improvements Ardmore Airpark	October, 2013	Variable (7.75% current)	44,633	500,000	-
First Nation Bank & Trust Note Payable	Building improvements	January, 2016	Variable (3.25% current)	66,084	500,659	74,485
Landmark Bank Note payable	Acquisition of Infrastructure at Colvert Industrial Park	January, 2014 on Demand	5.25% none	34,896	360,000	259,928
City of Ardmore					600,000.00	600,000
Citizens Bank Bond Anticipation Note 2009	Improvements	August, 2011	4.07%	304,895	2,500,000.00	100
						<u>\$ 9,165,828</u>

Variable rate terms – Interest requirements for variable rate debt are calculated using the interest rate effective at the end of the reporting period. The interest rate is reset annually and is based Citibank New York Prime Rate.

As of June 30, 2013, annual debt service requirements of governmental activities to maturity are as follows:

Year ending June 30:	Tax apportionment bonds		Notes Payable	
	Principal	Interest	Principal	Interest
2014	\$ 270,000	\$ 188,238	\$ 2,281,582	\$ 185,510
2015	280,000	173,456	602,224	138,200
2016	295,000	158,003	619,945	110,589
2017	315,000	141,019	649,352	81,182
2018	330,000	122,475	680,054	50,480
2019 - 2023	1,965,000	295,676	877,672	34,884
Total	<u>\$ 3,455,000</u>	<u>\$ 1,078,867</u>	<u>\$ 5,710,828</u>	<u>\$ 600,845</u>

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 4 - Related Party Transactions

The president/chief operating officer of the Authority also serves as president of the Ardmore Chamber of Commerce (Chamber) and the Ardmore Chamber of Commerce Foundation (Foundation). In addition, at least one member of the Authority's board of trustees also serves on the Chamber's board of directors.

The Chamber is compensated in the amount of \$205,000 by the Authority pursuant to a management contract whereby the Chamber provides necessary personnel, supplies, and equipment to the Authority to carry on its business.

The Chamber also pays salaries and benefits for all employees of the Authority. During the year ending June 30, 2013, the Authority reimbursed the Chamber \$223,115 for payroll and related costs.

The Authority leases an office building to the Chamber. The initial lease agreement extends through 2014, with two, twenty-year extensions to be exercised at the Chamber's option at an annual rental of \$12,000.

Note 5 – Capital Assets

Capital assets as of June 30, 2013, consist of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Land held for resale</i>	\$ 1,127,028	\$ 955,823	\$ 955,823	\$ 1,127,028
<i>Capital assets, not being depreciated</i>				
Land	\$ 432,456	\$ -	\$ -	\$ 432,456
Total capital assets, not being depreciated	432,456	-	-	432,456
<i>Capital assets, being depreciated</i>				
Buildings and Improvements	\$ 18,159,629	\$ 63,974	\$ -	\$ 18,223,603
Land improvements	10,070,732	155,972	-	10,226,704
Equipment	1,060,874	44,563	-	1,105,437
Vehicles	379,464	-	-	379,464
Easements	127,900	-	-	127,900
Runway improvements	23,135,919	50,505	-	23,186,423
Total capital assets, being depreciated	52,934,518	315,013	-	53,249,531
Less Accumulated Depreciation	\$ (13,412,728)	\$ (1,421,639)	\$ -	\$ (14,834,367)
Total capital assets, being depreciated, net	39,521,790	(1,106,626)	-	38,415,164
Governmental activities capital assets, net	\$ 39,954,246	\$ (1,106,626)	\$ -	\$ 38,847,620

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 5 – Capital Assets (continued)

Depreciation expense of \$1,421,639 was charged to the Authority’s economic development activity.

Note 6 - Contingencies

The Authority is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Authority carries commercial insurance. There have been no significant reductions in coverage from the prior year.

An agreement exists with the City of Ardmore whereby the Authority agrees to administer a Community Development Block Grant to provide loans to companies to finance facility development and working capital. These loans are fully collateralized and the Authority bears no liability in the event of default on the obligations.

The Authority is involved in various legal actions in which claims of varying amounts are being asserted against the Authority. The Authority follows the practice of providing these claims when a loss is probable and a loss becomes fixed or determinable in amount. In the opinion of Authority management, the legal actions will not result in a significant impact on the Authority’s financial position.

Note 7 – Leases

The Authority owns and leases buildings primarily warehouse, manufacturing and office space. The terms of the leases generally range from one to fifteen years with extensions of from one to twenty years. The carrying value of leased buildings and land at June 30, 2013 is:

Buildings and Improvement	\$ 17,106,298
less accumulated depreciation	<u>(8,959,725)</u>
	<u>\$ 8,146,574</u>

Lease amounts on operating leases are adjusted annual using changes in the consumer price index. Future minimal rental income on noncancellable operating leases as of June 30, 2013 is as follows:

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 7 – Leases (continued)

Year Ending June 30	
2014	\$ 326,038
2015	51,391
2016	40,990
2017	40,426
2018	23,226
2019-2023	17,070
2024-2028	50
Thereafter	210
	\$ 499,401

The Authority also has a direct financing lease with future minimum lease payments receivable June 30, 2013 as follows:

Year Ending June 30	
2014	\$ 1,071,077
2015	974,677
2016	974,677
2017	974,677
2018	974,677
2019-2023	1,610,082
	\$ 6,579,866

Note 8 – Adjustments from Fund Financial Statements to Government-Wide Financial statements

The excess of revenues and transfers in over expenditures and transfers out in governmental fund statement of revenues, expenditures, and changes in fund balances differs from the change in net position as reported in the government-wide statement of revenues, expenses and changes in net position. The total difference is \$2,333,067. The detail of this difference is as follows:

Capital outlay	\$ 315,013
Depreciation expense	(1,421,639)
Principal repayments	2,439,787
	\$ 1,333,161

The fund balances in the governmental fund statement of assets, liabilities and fund balances

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 8 – Adjustments from Fund Financial Statements to Government-Wide Financial statements (continued)

differs from the net assets reported in the government-wide statement of assets, liabilities and net assets. The total difference is \$30,681,698. The detail of this difference is as follows:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 38,847,620
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Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds:

Bonds and notes payable	(9,165,828)
	<u>\$ 29,681,792</u>

Note 9 – Retirement Plan

All full time employees are eligible to contribute to a pretax IRA set up by the Chamber after one year of employment. The Chamber will match the employee contribution, up to a maximum of 3% of the employee’s annual salary. The cost of retirement benefits for 2013 was \$1,498.

Note 10 – Conduit Debt Obligations

From time to time, the Authority has issued notes payable to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The notes are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Authority nor its beneficiary is obligated in any manner for repayment of the notes. Accordingly, the notes payable and related notes receivable are not reported as liabilities or assets in the accompanying financial statements. As of June 30, 2013, there was 1 issue outstanding. The aggregate principal payable for this issue was \$390,954,408.

Note 11 – New GASB Standard

In Fiscal year 2013, ADA implemented GASB Statement 63, *Reporting Deferred Outflows, Deferred Inflows, and Net Position*. This statement includes a title change from the “Statement of assets, liabilities and net assets – modified cash basis” and the “Statement of revenues, expenses and changes in net assets – modified cash basis” to “Statement of assets, liabilities and net position – modified cash basis” and the “Statement of revenues, expenses and changes in net position – modified cash basis”, requires deferred outflows to be reported in a separate section after assets, deferred inflows reported as a separate section after liabilities. Only those items specifically defined by GASB may be reported as deferred outflows or inflows. The only effect on the financial statements for ADA was the change in terminology “net assets” to “net position”.

ARDMORE DEVELOPMENT AUTHORITY
Notes to Financial Statements
For the Year Ended June 30, 2013

Note 12 – Prior Period Adjustment

Due to a required repayment of U.S. Department of Housing and Urban Development grant funds occurring subsequent to year end, a restatement of beginning governmental net position and general fund balances was necessary. The total repayment of \$600,000 occurred March 2014. Of this amount, \$428,021 of this repayment related to fiscal year 2013 revenue received and \$171,979 was related to 2012 revenue received. Therefore, a prior period adjustment was made that effected governmental net position and general fund balances as follows:

	Net Position as Previously Reported	Restatement	Net Position as Restated
Governmental activities:			
Escrows and amounts payable	\$ -	\$ 171,979	\$ 171,979
Total Net Position	33,827,867	(171,979)	33,655,889
 General fund:			
Escrows and amounts payable	\$ -	\$ 171,979	\$ 171,979
Fund Balance	5,479,237	(171,979)	5,307,258

Note 13 – Subsequent Event

Subsequent to year end, a loan grantee exercised their option to purchase loan property as part of the original loan agreement on August 1, 2013. As a result, the debt owed to the Oklahoma Industrial Finance Authority and the Oklahoma Finance Authority in the total amount of \$970,000 paid off according to loan schedule, and property in the amount of \$5,200,000 was transferred to the grantee.

During a public election vote in November 2012, the sales tax allocation that ADA receives from the City of Ardmore was defeated. However, the allocation went to public vote again September, 2013 and the allocation was reinstated. As a result, ADA experienced a reduction of income of approximately \$350,000 for the months in which the sales tax allocation was not received subsequent to year end in fiscal year 2014.

ADA was required to return grant funds in relation to a U.S. Department of Housing and Urban Development grant received in fiscal year 2012 and 2013. The total repayment was completed March 2014 in the amount \$600,000. HUD has provided instructions on restoring eligibility to reapply for the funds in the future.

ARDMORE DEVELOPMENT AUTHORITY
Supplemental Schedule
Budgetary Comparison – General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances
	Original	Final		Positive (Negative)
REVENUES:				
TIF	\$ 800,000	\$ 800,000	\$ 578,673	\$ (221,327)
Sales Tax	1,330,000	1,330,000	1,345,234	15,234
Facility rentals	1,876,560	1,876,560	1,897,859	21,299
Grant income	690,021	690,021	79,734	(610,287)
Oil and Gas Royalties	532,000	532,000	2,036,477	1,504,477
Miscellaneous	32,900	32,900	379,343	346,443
Investment income	<u>4,680</u>	<u>4,680</u>	<u>2,328</u>	<u>(2,352)</u>
Total revenues	<u>5,266,161</u>	<u>5,266,161</u>	<u>6,319,648</u>	<u>1,053,487</u>
EXPENDITURES:				
Current:				
Economic development	2,280,880	2,280,880	2,018,562	262,318
Capital outlay	5,380,982	5,380,982	315,013	5,065,969
Debt service	<u>2,281,808</u>	<u>2,281,808</u>	<u>3,033,234</u>	<u>(751,426)</u>
Total expenditures	<u>9,943,670</u>	<u>9,943,670</u>	<u>5,366,809</u>	<u>4,576,861</u>
Excess revenues over (under) expenditures and other financing sources	(4,677,509)	(4,677,509)	952,839	5,630,348
Fund balance, beginning as restated	<u>4,677,509</u>	<u>4,677,509</u>	<u>5,307,258</u>	<u>629,749</u>
Fund balance, end	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,260,097</u>	<u>\$ 6,260,097</u>

ARDMORE DEVELOPMENT AUTHORITY
Supplemental Schedule
The Ardmore Reinvestment Project Plan
City of Ardmore Tax Increment District #1
Project Revenue and Project Costs Report (Unaudited)
Report Ending June 30, 2013

PROJECT REVENUE

Current year increment revenue:	\$ 578,673.00
Total amount of incremental revenues collected:	<u>\$ 6,711,521.53</u>

PROJECT COSTS*

Authorized Project Costs:	\$ 10,466,000.00
Project Costs Incurred:	<u>\$ 8,348,120.07</u>
Balance available for Project Costs:	<u>\$ 2,117,879.93</u>

PROJECT BOND INDEBTEDNESS**

Current year debt service:	\$ 457,346.88
Outstanding Bond Indebtedness:	<u>\$ 3,455,000.00</u>

*In addition, interest and financing of the authorized Project Costs have been incurred.

**Tax increment revenues have been committed to repay the debt. Both current Project Costs and debt service are funded by the incremental revenues.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Ardmore Development Authority

We have audited 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, the financial statements of Ardmore Development Authority, a component unit of the City of Ardmore as of and for the year ended June 30, 2013, which collectively comprise the Ardmore Development Authority's basic financial statements and have issued our report thereon dated March 21, 2014. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Authority prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. In addition, our report included an emphasis of matter paragraph for correction of an error.

Internal Control Over Financial Reporting

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

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 that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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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. We consider the deficiency described as 2013-1 in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ardmore Development Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as 2013-1.

Ardmore Development Authority's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
March 21, 2014

ARDMORE DEVELOPMENT AUTHORITY
Schedule of Findings and Responses
June 30, 2013

2013-1 Monitoring of Grant Compliance Requirements

Condition – Grant compliance requirements were not monitored properly.

Criteria – Procedures should be in place that determine the grant requirements for grants awards and insure that grant requirements are met for all funds received. .

Cause – Inadequate design of internal controls related to grant compliance.

Effect – Grant funds had to be returned to funding agency due to failure to follow grant eligibility and cash management requirements.

Recommendation – We recommend that new procedures be put into place to identify the specific compliance requirements for each grant and to monitor compliance as funds are received and expended..

Views of the Responsible Officials – Current ADA Management has implemented an active management process for oversight of all grant funding that includes multiple levels of oversight. This will ensure that all monies are requested, disbursed and reported per the specific grant requirements.