

**OKLAHOMA ORDNANCE WORKS AUTHORITY  
(A Public Trust)**

Report on Examination of Financial Statements

For the Fiscal Years Ended April 30, 2013 and 2012

# OKLAHOMA ORDNANCE WORKS AUTHORITY (A Public Trust)

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## **Report of Independent Certified Public Accountants**

To the Board of Trustees of the  
Oklahoma Ordnance Works Authority:

We have audited the accompanying financial statements of the business-type activities of the OKLAHOMA ORDNANCE WORKS AUTHORITY (the "Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the year ended April 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. The financial statements of the Oklahoma Ordnance Works Authority as of and for the year ended April 30, 2012 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated October 4, 2012.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express 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 Auditing Standards*, issued by the Comptroller General of the United States. These 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 risk 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 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 financial position of business-type activities of the Oklahoma Ordnance Works Authority as of April 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013 on our consideration of the Oklahoma Ordnance Works Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 assessing the results of our audit.

## Report of Independent Certified Public Accountants – (Continued)

### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the "Management's Discussion and Analysis" on pages three (3) through six (6) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Oklahoma Ordnance Works Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information 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 accompanying supplementary schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Ellist, Doris & Helle, PC CPAs*

Tulsa, Oklahoma  
October 17, 2013

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the OKLAHOMA ORDINANCE WORKS AUTHORITY'S (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance for the year ended April 30, 2013. Please read this discussion and analysis in conjunction with the Report of Independent Certified Public Accountants and the Authority's basic financial statements and footnotes, which follow this section.

### **OVERVIEW OF THE AUTHORITY'S BASIC FINANCIAL STATEMENTS**

The Authority's annual financial report consists of three parts, (1) management's discussion and analysis (this section), (2) the basic financial statements and (3) accompanying notes to the basic financial statements and, when applicable, required supplementary information. The basic financial statements are provided to the Auditor of the State of Oklahoma, as the Authority is a public trust whose ultimate beneficiary is the State of Oklahoma. The remainder of this overview section of management's discussion and analysis explains the structure and contents of the Authority's basic financial statements.

#### **Basic Financial Statements**

The Authority is considered a proprietary enterprise fund for purposes of governmental fund classification. As such, the Authority's financial statements are presented in a format which is similar to the format of that of a private, for-profit business entity.

#### **Required Financial Statements:**

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows

#### **Accounting Basis and Measurement Focus:**

- Accrual accounting and economic resource management focus

#### **Type of Asset and Liability Information:**

- All assets and liabilities, both financial and capital, and short-term and long-term

#### **Type of Inflow/Outflow Information:**

- All revenues and expenses incurred during the fiscal year, regardless of when cash is actually received or paid

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements of the Authority provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes follow the basic financial statements in the accompanying financial report of the Authority.

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)**

**FINANCIAL AND OPERATIONAL HIGHLIGHTS**

The fiscal year ended April 30, 2013 was another strong year for the Authority as total net assets increased to \$160,495,689, an increase of 3% from the previous year. The following comparative condensed financial statements provide a brief overview of the Oklahoma Ordnance Works Authority's financial and operating results:

**Comparative Condensed Statements of Net Assets**

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>				
Current assets	\$ 45,433,421	\$ 29,342,326	\$ 16,091,095	54.8%
Property and equipment, net	108,813,376	107,336,425	1,476,951	1.4%
Investments	91,214,327	103,812,603	(12,598,276)	-12.1%
			-	
<b>Total assets</b>	<b>\$ 245,461,124</b>	<b>\$ 240,491,354</b>	<b>\$ 4,969,770</b>	<b>2.1%</b>
<b>Liabilities:</b>				
Current liabilities	\$ 415,574	\$ 451,599	\$ (36,025)	-8.0%
Long-term debt	84,549,861	84,549,861	-	No Change
<b>Total liabilities</b>	<b>84,965,435</b>	<b>85,001,460</b>	<b>(36,025)</b>	<b>0.0%</b>
<b>Net assets</b>	<b>160,495,689</b>	<b>155,489,894</b>	<b>5,005,795</b>	<b>3.2%</b>
<b>Total liabilities and net assets</b>	<b>\$ 245,461,124</b>	<b>\$ 240,491,354</b>	<b>\$ 4,969,770</b>	<b>2.1%</b>

**Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>Fiscal Year Ended April 30, 2013</u>	<u>Fiscal Year Ended April 30, 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Total revenues</b>	<b>\$ 23,298,991</b>	<b>\$ 24,830,925</b>	<b>\$ (1,531,934)</b>	<b>-6.2%</b>
<b>Expenses:</b>				
Operating	6,222,922	5,971,261	251,661	4.2%
General and administrative	2,583,895	2,265,867	318,028	14.0%
<b>Non-operating expenses:</b>				
Interest	5,224,857	5,224,857	-	No Change
Depreciation	4,261,522	4,516,899	(255,377)	-5.7%
<b>Total expenses</b>	<b>18,293,196</b>	<b>17,978,884</b>	<b>314,312</b>	<b>1.7%</b>
<b>Changes in net assets</b>	<b>5,005,795</b>	<b>6,852,041</b>	<b>(1,846,246)</b>	<b>-26.9%</b>
<b>Beginning net assets</b>	<b>155,489,894</b>	<b>148,637,853</b>	<b>6,852,041</b>	<b>4.6%</b>
<b>Ending net assets</b>	<b>\$ 160,495,689</b>	<b>\$ 155,489,894</b>	<b>\$ 5,005,795</b>	<b>3.2%</b>

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)**

**FINANCIAL ANALYSIS OF OKLAHOMA ORDNANCE WORKS AUTHORITY**

**Asset and Debt Administration**

At the end of April 30, 2013, the Authority's operating cash and certificate of deposit position was \$44,202,622, an increase of \$16,888,175 from the prior year. At April 30, 2013, the balance of total current assets was \$45,433,421, an increase of \$16,091,095 from the previous year. The total balance of investments in U.S. Treasury obligations, GNMA bonds and an investment in common stock showed a decrease of \$12,598,276, to \$91,214,327. The reason for these changes was a shift in investment strategy to larger holdings in cash and cash equivalents and certificates of deposit due to the ongoing low interest rate environment. Given the low interest rate environment, the Authority has been attempting to keep durations short as long-term interest rates are at historically low levels. Overall, total assets increased by \$4,969,770 or 2%, to an April 30, 2013, total of \$245,461,124.

As in the previous year, the Authority's total current liabilities at April 30, 2013, were negligible in comparison to total current assets. Total current liabilities, consisting of accounts payable and various accrued liabilities at April 30, 2013, were \$415,574 as compared to a balance of \$451,599 at April 30, 2012. Long-term debt was unchanged at \$84,549,861 from the previous year ended April 30, 2012. Long-term debt consists of two portions; \$81,549,861 of non-recourse debt which is due to a park tenant for the former Gatorade facility that is presently being leased by the tenant from the Authority and \$3,000,000 which is due to another park tenant as a future development fund, subject to certain constraints. Both of these items are long-term in nature and are detailed more fully in the footnotes to the accompanying audit report.

**Revenues, Expenses and Changes in Net Assets**

At April 30, 2013, the Authority's total revenues were \$23,298,991, a decrease of \$1,531,934 or (6.2%) over the previous year. Total revenues for the year ended April 30, 2013 are lower due to a decrease in interest income from the previous year, due to an ongoing low-interest rate environment. Also, the Authority recognized a large gain on the sale of certain industrial park property in 2012. The decrease in interest income and gain on sale of assets more than offsets an increase in water sales, waste treatment income, airport income and the unrealized gain in fair value of investments. It is worth noting that a portion of building rental income and all of the interest expense on the Authority's statements of revenues, expenses and changes in net assets can be viewed as offsetting items which are related to the Gatorade agreement. The details of the arrangement for the use of the Gatorade facility are more fully explained in the footnotes that accompany the annual audit report. Also included in the Authority's total revenues is an upward adjustment of \$709,585 in the market valuation of the Authority's investments. Almost all of the Authority's investments are fixed income securities with market values that are primarily impacted by changes in interest rates. *Accounting principles generally accepted in the United States of America ("US GAAP") and Government Auditing Standards* issued by the Governmental Accounting Standards Board ("GASB") require this adjustment, in order to fairly present the current market value of investments. As such, total annual revenues are impacted by fluctuations in the market value of investments. Hypothetically, if the market valuation adjustment were removed, the Authority would have recognized total revenues of \$22,589,406 for the fiscal year ended April 30, 2013.

At April 30, 2013, total expenses were \$18,293,196, an increase of \$314,312 or 1.7% over the previous year. The primary expense categories that caused the increase in total expenses were general maintenance and legal fees. As noted in the previous year's "management's discussion and analysis", the Authority has continued to experience increased expenditures for chemicals and power and while these expenditures moderated during the fiscal year ended April 20, 2013, this trend is expected to continue with further increases in future years. Overall, the total change in net assets for the fiscal year ended April 30, 2013 was \$5,005,795 as compared to a change in net assets of \$6,852,041 for the fiscal year ended April 30, 2012, which represents a decrease of 26.9%.

**OKLAHOMA ORDNANCE WORKS AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS - (Continued)**

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This discussion and analysis has been designed to provide its readers with a general overview of the Authority's finances and objectives. If you have any questions about this report or need additional information, please contact:

OKLAHOMA ORDNANCE WORKS AUTHORITY, dba MID AMERICA INDUSTRIAL PARK  
Attention: Mr. DeWayne Couch, Comptroller  
P.O. Box 945  
Pryor Creek, Oklahoma 74362

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
(A Public Trust)  
**Statements of Net Assets**  
**April 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 8,645,538	\$ 4,715,762
Certificates of deposit (Notes A and B)	35,557,084	22,598,685
Accounts receivable, net (Note A)	898,635	1,280,890
Accrued interest income receivable	211,380	320,074
Inventory-chemicals (Note A)	92,260	101,854
Prepaid expenses	28,524	325,061
	<u>45,433,421</u>	<u>29,342,326</u>
Total current assets		
Investments (Notes A and B):		
Investments, U.S. Treasury obligations	46,604,122	47,216,797
Investments, GNMA bonds	44,543,298	56,538,075
Investments, Common stock	66,907	57,731
	<u>91,214,327</u>	<u>103,812,603</u>
Total investments		
Property and equipment, net of accumulated depreciation (Notes A and C):		
Industrial park facilities, net	77,629,375	79,844,264
Water plant facilities, net	15,208,428	15,366,962
Waste treatment facilities, net	9,653,264	10,250,075
Construction in progress	6,296,254	1,850,990
Spare parts, non-depreciable	26,055	24,134
	<u>108,813,376</u>	<u>107,336,425</u>
Total property and equipment, net		
Total assets	<u>\$ 245,461,124</u>	<u>\$ 240,491,354</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 224,586	\$ 224,595
Accrued liabilities (Note E)	190,988	227,004
	<u>415,574</u>	<u>451,599</u>
Total current liabilities		
Long-term debt (Notes D and M)	<u>84,549,861</u>	<u>84,549,861</u>
Total liabilities	<u>84,965,435</u>	<u>85,001,460</u>
Net assets (Note F):		
Net assets, unrestricted	51,682,313	48,153,469
Net assets, invested in capital assets	108,813,376	107,336,425
	<u>160,495,689</u>	<u>155,489,894</u>
Total net assets		
Total liabilities and net assets	<u>\$ 245,461,124</u>	<u>\$ 240,491,354</u>

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDINANCE WORKS AUTHORITY  
(A Public Trust)  
Statements of Revenues, Expenses and  
Changes in Net Assets  
For the Fiscal Years Ended April 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Water sales (Note K)	\$ 12,114,819	\$ 11,581,669
Building rentals (Note G)	6,161,394	6,463,531
Interest income	2,236,726	3,565,188
Waste treatment income	1,477,406	1,276,995
Airport income (Note H)	437,465	142,614
Gain on sales of assets	69,216	1,500,723
Income from direct financing leases		104,279
Miscellaneous income	92,380	43,166
Unrealized gain or (loss) in fair value of investments	709,585	152,760
Total revenues	<u>23,298,991</u>	<u>24,830,925</u>
Expenses - operating:		
Chemicals	2,417,178	2,443,182
Power	988,259	1,021,853
Wages and payroll	893,647	843,968
Water	705,915	705,036
General maintenance	540,605	414,747
Waste and sludge disposal	129,521	91,969
Permits and testing	68,000	39,038
Pre-treatment program	25,097	47,257
Laboratory	12,345	9,361
Other expenses	442,355	354,850
Total operating expenses	<u>6,222,922</u>	<u>5,971,261</u>
Expenses - general and administrative:		
Administrative salaries	1,546,875	1,504,561
Legal fees	379,781	141,813
Insurance	208,041	179,634
Marketing	194,989	271,570
Other professional fees	138,702	61,888
Travel and entertainment	51,399	55,177
Other expenses	64,108	51,224
Total general and administrative expenses	<u>2,583,895</u>	<u>2,265,867</u>
Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	4,261,522	4,516,899
Total expenses	<u>18,293,196</u>	<u>17,978,884</u>
Changes in net assets	5,005,795	6,852,041
Net assets, beginning of year	<u>155,489,894</u>	<u>148,637,853</u>
Net assets, end of year	<u>\$ 160,495,689</u>	<u>\$ 155,489,894</u>

The accompanying notes are an integral part of the financial statements.

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
(A Public Trust)  
**Statements of Cash Flows**  
For the Fiscal Years Ended April 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from customers	\$ 20,283,464	\$ 19,612,254
Cash paid to suppliers and employees	(8,045,762)	(8,126,015)
Interest income	2,236,726	3,565,188
Interest (expense)	<u>(5,224,857)</u>	<u>(5,224,857)</u>
Net cash provided by operating activities	<u>9,249,571</u>	<u>9,826,570</u>
Cash flows from investing activities:		
(Purchases) or redemptions of certificates of deposit	(12,958,399)	(16,215,209)
(Purchases) or redemptions of U.S. Treasury obligations	1,313,084	(7,569,438)
(Purchases) or redemptions of GNMA bonds	11,994,777	14,378,204
(Purchases) of property and equipment	(5,738,651)	(1,797,117)
Proceeds from sales of property and equipment	<u>69,394</u>	<u>2,985,662</u>
Net cash (used in) investing activities	<u>(5,319,795)</u>	<u>(8,217,898)</u>
Net increase in cash and cash equivalents	3,929,776	1,608,672
Cash and cash equivalents, beginning of year	<u>4,715,762</u>	<u>3,107,090</u>
Cash and cash equivalents, end of year	<u>\$ 8,645,538</u>	<u>\$ 4,715,762</u>
Reconciliation of changes in net assets to net cash provided by operating activities:		
Changes in net assets, net of non-cash items (a)	<u>\$ 4,296,210</u>	<u>\$ 6,699,281</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	4,261,522	4,516,899
(Gain) on sales of assets	(69,216)	(1,500,723)
Changes in assets and liabilities:		
(Increase) or decrease in accounts receivable	382,255	(363,015)
(Increase) or decrease in accrued interest income receivable	108,694	49,505
(Increase) or decrease in inventory-chemicals	9,594	9,559
(Increase) or decrease in prepaid expenses	296,537	381,282
Increase or (decrease) in accounts payable	(9)	28,871
Increase or (decrease) in accrued liabilities	<u>(36,016)</u>	<u>4,911</u>
Total adjustments and changes in assets and liabilities	<u>4,953,361</u>	<u>3,127,289</u>
Net cash provided by operating activities	<u>\$ 9,249,571</u>	<u>\$ 9,826,570</u>

(a) Non-cash items consisted of unrealized investment gains of \$709,585 and \$152,760

The accompanying notes are an integral part of the financial statements.

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Notes to the Basic Financial Statements**  
**As of and For the Fiscal Years Ended April 30, 2013 and 2012**

**NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Origins of the Authority and Nature of Activities**

The OKLAHOMA ORDNANCE WORKS AUTHORITY (the "Authority") was established to stimulate the economy of northeast Oklahoma by attracting additional industrial investments and employment to the Mid-America Industrial Park located near Pryor, Oklahoma. The Authority's revenues are derived from the operation of a water plant, waste treatment plant, the sale or lease of the Authority's buildings or land and interest income earned on the Authority's investment holdings and loans made to industrial park tenants. The Authority's customers consist of municipalities, rural water districts and industries located in northeastern Oklahoma. Sales to these customers are made on account. The Authority is not subject to federal or state income taxes and is organized as a public trust whose ultimate beneficiary is the State of Oklahoma. The State of Oklahoma considers the Authority to be a related organization.

**Basis of Accounting and Financial Statement Presentation**

The Authority is considered to be a proprietary enterprise fund for purposes of governmental fund classification. Such funds are used to account for a government's activities that are similar to those of the private sector. As a result, the basic financial statements of the Authority are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") as applied to governmental units. This basis of accounting requires that revenue be recognized when earned and expenses be recognized when incurred, regardless of actual receipt or payment of cash.

The *Governmental Accounting Standards Board* ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As required by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB") Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Revenues and expenses are classified as operating or non-operating according to the following criteria: Operating revenues include activities that have the characteristics of an exchange transaction (i.e. transactions where essentially equal value is exchanged. Non-operating revenues include activities that have the characteristics of non-exchange transactions such as investment income which is defined as non-operating revenue by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Government Entities that use Proprietary Fund Accounting* and GASB Statement No. 34. Operating expenses include activities that have the characteristics of an exchange transaction. Non-operating expenses include activities that have the characteristics of non-exchange transactions not meeting the above definition for operating expenses.

**Cash and Cash Equivalents and Certificates of Deposit**

For purposes of the financial statements, cash and cash equivalents consist of all highly liquid depository accounts with initial maturities of three months or less, when purchased. Certificates of deposits are stated separately from cash and cash equivalents on the statements of net assets as the Authority's certificates of deposit have maturity dates in excess of ninety days.

OKLAHOMA ORDNANCE WORKS AUTHORITY  
(A Public Trust)  
Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2013 and 2012

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):**

**Accounts Receivable**

Accounts receivable are related to water sales and rental income and are recorded when invoices are issued. Accounts receivable are presented in the statements of net assets net of an allowance for doubtful accounts, if applicable. The allowance for doubtful accounts is estimated based on the Authority's historic collection experience(s) with various customers. At April 30, 2013, management of the Authority did not believe that an allowance for doubtful accounts was necessary.

**Inventory**

The Authority records its inventory of chemical products and materials at cost using the first-in, first-out method.

**Investments**

The Authority's investment policies allow for investments in bonds that are backed by the full faith and credit of the U.S. government including U.S. Treasury obligations and mortgage-backed securities/"Ginnie Mae" bonds issued by the Government National Mortgage Association "GNMA", which are carried at market value based upon published market quotations. While these securities are held to maturity by the Authority, they are subject to market fluctuations during the holding period(s).

The Authority also holds approximately three thousand (3,000) shares of the common stock of a publicly traded company that was received as payment in a prior year for outstanding accounts receivable that was previously owed to the Authority.

**Property and Equipment, Net of Accumulated Depreciation**

Property and equipment are recorded at cost, net of accumulated depreciation. The Authority provides for depreciation of property and equipment under the straight-line method over the estimated useful lives of the respective assets. The Authority's policy is to consider capitalization for individual property and equipment items with values of \$100 or greater. Lesser amounts are expensed. Construction in progress represents costs accumulated for various construction projects that were not yet completed at the end of the Authority's fiscal year.

**Donated Property**

The Authority is eligible to participate in federal and state grant programs. Property donated to the Authority under such programs is carried at estimated fair value when donated. Property acquired with grant proceeds is recorded at cost and is depreciated in the same manner as property acquired with the Authority's funds.

**Income Tax**

By statute, the Authority is exempt from Federal and State income taxes.

**Advertising Costs**

The Authority expenses advertising costs in the period in which they are incurred.

**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 the estimates that were used.

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Notes to the Basic Financial Statements**  
**As of and For the Fiscal Years Ended April 30, 2013 and 2012**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):**

**Reclassifications**

Certain amounts from the April 30, 2012 financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on the change in net assets.

**Date of Management's Review and Subsequent Events**

Subsequent events were evaluated through October 17, 2013 which is the date that the financial statements were available for issuance, noting one additional event that required recognition or disclosure in the financial statements, which is further described in Note M.

**NOTE B - BANK DEPOSITS AND INVESTMENTS:**

**Bank Deposits**

All bank deposits are held with national and local financial institutions and are included in the accompanying statements of net assets as cash and cash equivalents and certificates of deposit. The carrying amounts of these deposits totaled \$44,202,622 and \$27,314,447 for the years ended April 30, 2013 and 2012, respectively. The financial institution balances for these deposits totaled \$44,289,697 and \$27,731,962 for the years ended April 30, 2013 and 2012, respectively. Any differences between the carrying amounts and the financial institution balances are due to outstanding checks and outstanding deposits.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The Authority's investment policy requires collateralization of all demand deposit accounts and certificates of deposit. The Authority also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, brokers/dealers, intermediaries and advisors with which the Authority will do business. The Authority's interest-bearing demand deposits and certificates of deposit held at financial institutions are currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. At April 30, 2013 and 2012, the Authority held deposits which were in excess of FDIC insurance limits with various financial institutions. The Authority has obtained collateral agreements for certain of these deposits whereby the excess deposits are collateralized by securities held by the pledging financial institutions. Temporary deposits of cash and cash equivalents awaiting reinvestment in certificates of deposit, Ginnie Mae bonds or U.S. Treasury obligations were also held in brokerage accounts, which were not covered by FDIC insurance, but were partially covered by Securities Investor Protection Corporation ("SIPC") insurance. At April 30, 2013, the Authority's temporary deposits of cash and cash equivalents held in brokerage accounts awaiting reinvestment exceeded SIPC insurance levels and the additional SIPC insurance secured by the brokerage firm, Raymond James, by \$438,103.

**Investments**

As of April 30, 2013, the Authority had the following investments:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Quality</u>	<u>Weighted Average Days to Maturity</u>
U.S. Treasury obligations	\$ 46,604,122	\$ 46,598,663	N/A	202 Days
GNMA bonds	44,543,298	43,418,923	N/A	N/A – See Page 13
Common stock	66,907	50,496	N/A	N/A
Total investments:	<u>\$ 91,214,327</u>	<u>\$ 90,068,082</u>		

**Credit Quality**

Credit quality for the investments in U.S. Treasury obligations and GNMA bonds is listed as "N/A" due to the fact that these investments are backed by the full faith and credit or implicit guarantee of the U.S. government. The investment in common stock does not have either a credit quality or maturity component and the entire value of the investment is at risk.

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**NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):**

**Duration to Maturity**

The Authority's investments in U.S. Treasury obligations tend to have short maturity durations whereas the Authority's investments in GNMA bonds have longer durations. The durations on the investments in GNMA bonds can be as long as thirty years, but these bonds are subject to early redemption due to pre-payment of the underlying mortgages. As such, the "days to maturity" for the GNMA bonds are listed as "N/A" due to the fact that it is not possible to predict when the underlying mortgages may be repaid and the bonds redeemed.

**Investment Policy**

The Authority has adopted a formal investment policy. The primary objective of the Authority's investment policy is safety of principal and as such, the Authority is limited to investments with some form of U.S. government guarantee. Under the investment policy, the standard of care to be used shall be the "prudent person" standard, and shall be applied in the context of managing an overall portfolio.

**Investment Issuer Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In order to address credit risk, the Authority has a formal, written investment policy statement that defines which securities are suitable for investment. The Authority invests only in U.S. Treasury obligations and GNMA bonds that are backed by the full faith and credit or implicit guarantee of the U.S. government. As such, the Authority has reduced credit risk to the lowest possible level as all investments, aside from the investment in common stock, have some form of guarantee by the U.S. government. Credit quality has been listed as "N/A" or not applicable for the Authority's investments in U.S. Treasury obligations and GNMA bonds because the applicable securities are considered to hold almost no credit risk.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In order to address interest rate risk, the Authority actively manages investment maturities as a means of managing exposure to fair value losses due to changes in interest rates. The Authority's stated investment objective is to hold all investments to maturity; hence fair value gains or losses should be only of a temporary, unrealized nature. However, over the short to intermediate term, the value of the Authority's portfolio of U.S. Treasury obligations and GNMA bonds are directly affected by interest rate fluctuations. A hypothetical example of how one of the Authority's U.S. Treasury obligations would be impacted by an increase in interest rates is as follows:

<b>EXAMPLE:</b>	Impact on Fair Value of Basis <u>Point (Bps) Increase of:</u>						
U.S. Treasury obligation: \$1,000,000 Treasury bond, 4% Yield	<table border="0"> <tr> <td style="text-align: center;"><u>100 Bps</u></td> <td style="text-align: center;"><u>200 Bps</u></td> <td style="text-align: center;"><u>300 Bps</u></td> </tr> <tr> <td style="text-align: center;">\$971,993</td> <td style="text-align: center;">\$944,919</td> <td style="text-align: center;">\$918,742</td> </tr> </table>	<u>100 Bps</u>	<u>200 Bps</u>	<u>300 Bps</u>	\$971,993	\$944,919	\$918,742
<u>100 Bps</u>	<u>200 Bps</u>	<u>300 Bps</u>					
\$971,993	\$944,919	\$918,742					

This example only assumes changes in interest rates of exactly 100, 200 and 300 basis points. The length of time to maturity would directly affect the above example.

In the case of the Authority's investments in GNMA bonds, the impact of interest rate fluctuations cannot be quantified. The market values of the Authority's investments in GNMA bonds are affected by factors other than interest rates including relatively thin trading volumes and wide spreads of "bid" vs. "ask" prices.

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Notes to the Basic Financial Statements  
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**NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):**

**Concentration of Investment Issuer Credit Risk**

Certain of the Authority's investments are diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities.

**Risks and Uncertainties**

The Authority maintains a significant portion of its total assets in bonds and holds a small common stock position. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the combined statements of net assets.

**Investments – Fair Value Measurements**

Prior to fiscal 1999, the Authority recorded its investments at amortized cost, recording amortization of discount or premium monthly. During fiscal 1999, the Authority adopted *GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools,"* which requires governmental entities to report certain investments at fair value. Accordingly, the investments held by the Authority are recorded at fair value in the statements of net assets and consist of the following at April 30:

	<u>2013</u>	<u>2012</u>
Investments, registered in the Authority's name and held by brokerage firms	\$ 91,032,949	\$103,567,790
Investments, registered, and held in certificate form by the Authority	<u>181,378</u>	<u>244,813</u>
Total investments	<u>\$ 91,214,327</u>	<u>\$103,812,603</u>

The Financial Accounting Standards Board's Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*, defines fair value under accounting principles generally accepted in the United States of America, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. This standard defines fair value as the exchange price that would be received for an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability, in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The following provides a description of the three levels of inputs that may be used to measure fair value under the standard, the types of investments that fall under each category and the valuation methodologies used to measure these investments at fair value.

**"Level 1" Fair Value Measurements**

Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. All of the Authority's investments could be considered to be "Level 1" investments.

**"Level 2" Fair Value Measurements**

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies. There were no "Level 2" investments as of the reporting date.

**"Level 3" Fair Value Measurements**

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk. There were no "Level 3" investments as of the reporting date.

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**NOTE B - BANK DEPOSITS AND INVESTMENTS - (Continued):**

**Investments – Fair Value Measurements – (Continued)**

The preceding methods described may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. While the Authority's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**NOTE C - PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION:**

Property and equipment and the related depreciable lives thereof, net of accumulated depreciation, for the fiscal years ended April 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Industrial park facilities, net:		
Buildings	\$ 88,382,446	\$ 88,382,446
Airport and improvements	4,819,818	4,819,818
Streets and other improvements	2,802,228	2,802,228
Machinery and equipment	711,965	707,800
Undeveloped land (non-depreciable)	665,450	665,629
Furniture and fixtures	363,159	347,888
Computer equipment	351,147	306,607
Automobiles, trucks and tractors	338,698	338,698
Accumulated depreciation	<u>(20,805,536)</u>	<u>(18,526,851)</u>
Total industrial park facilities, net	<u>77,629,375</u>	<u>79,844,263</u>
Water plant and related facilities:		
Equipment	21,134,278	20,057,700
Distribution system	11,521,244	11,521,244
Building	295,557	295,557
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	<u>(17,774,072)</u>	<u>16,538,960)</u>
Total water plant facilities, net	<u>15,208,428</u>	<u>15,366,962</u>
Waste treatment facilities:		
Waste treatment plant	17,672,369	17,521,457
Landfill	46,161	46,161
Accumulated depreciation	<u>(8,065,266)</u>	<u>(7,317,542)</u>
Total waste treatment facilities, net	<u>9,653,264</u>	<u>10,250,076</u>
Construction in progress (non-depreciable)	6,296,254	1,850,990
Spare parts (non-depreciable)	<u>26,055</u>	<u>24,134</u>
Total property and equipment, net	<u>\$ 108,813,376</u>	<u>\$ 107,336,425</u>

OKLAHOMA ORDINANCE WORKS AUTHORITY  
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**NOTE D - LONG TERM DEBT:**

A summary of long-term debt at April 30, 2013, is as follows:

Long-term, non-recourse debt due to a former tenant for a building loan, interest at 6.5%. The maximum amount of funds available under the loan for all future phases of construction is \$200,000,000. Loan payments are to be interest-only for the life of the loan.	\$ 81,549,861
Long-term debt due to a tenant for a potential future "high impact investment" rebate, with no interest due under the loan.	<u>3,000,000</u>
Total long-term debt	<u>\$ 84,549,861</u>

Aggregate maturities of long-term debt for the five years ending after April 30, 2013, cannot be determined at this time.

Future payments on the non-recourse long-term debt balance of \$81,549,861 with the first industrial park tenant ("the tenant") are interest-only and do not provide for any reductions of principal. The specifics of the agreement provide for the Authority to construct a building and improvements in a finance arrangement with the tenant, with said tenant loaning the Authority the funds necessary to finance the construction. The long-term debt agreement is non-recourse in nature and in the event of a default by the Authority, the building and real estate improvement assets are pledged as collateral. The Authority will own the building and real estate improvements, and will receive lease payments from the tenant under the finance agreement which has a lease term of fifty (50) years with options for five (5) extensions of ten (10) years each. The contract with the tenant provides for a 6.5% rate of interest on the outstanding loan balance due. The tenant will then remit to the Authority a monthly lease payment which will be calculated as 100.75% of the monthly interest payment made by the Authority to the tenant. Lease payments from the tenant and interest payments from the Authority commenced during 2009 and annual amounts are scheduled to be lease payments of \$5,264,043 received by the Authority and interest payments of \$5,224,857 paid by the Authority. See footnote M, subsequent events, for more details on the future financial statement treatment of this item.

**NOTE E - COMPENSATED ABSENCES:**

The Authority's policy is to permit employees to accumulate earned but unused paid time off or accrued leave. Liabilities are recorded for accrued leave that the Authority will pay upon each employee's termination or retirement. The Authority allows employees to carry forward unused paid time off with the maximum accrual being thirty (30) hours per year with a maximum of two-hundred and forty (240) hours being carried forward. Certain administrative employees are allowed ninety (90) days per year of accrued leave with no maximum that can be carried forward. At April 30, 2013 and 2012, total accrued leave was \$181,531 and \$208,881, respectively, which is included in accrued liabilities.

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
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**NOTE F - NET ASSETS:**

The Authority's net assets at April 30, 2013 and 2012 were \$160,495,689 and \$155,489,894, respectively. Net assets are classified as follows:

- *Unrestricted* – Consist of operating funds over which the Board of Trustees retains full control to use in achieving any of its authorized purposes.
- *Invested in Capital Assets* – Consist of the Authority's total historical investment in property and equipment assets with in the industrial park ("capital assets").
- *Restricted* – Consist of operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The Authority is legally or contractually obligated to spend these funds in accordance with the restriction imposed by third parties. Under *GASB* requirements, a restriction of net assets only exists under either of the following conditions; a restriction externally imposed by a creditor, grantor or contributor, or a restriction imposed by law through enabling legislation.

When an expense is incurred that can be paid using restricted or unrestricted resources, the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

A significant amount of unrestricted net assets will be needed to finance future capital improvements within the industrial park. Under the Authority's capital budget, management estimates that approximately \$16,037,500 will be needed to complete capital projects for fiscal years 2014 through 2016 as per internal projections at April 30, 2013.

**NOTE G - BUILDING RENTALS AND OPERATING LEASES:**

For the fiscal years ended April 30, 2013 and 2012, the Authority recognized building rental income of \$6,161,394 and \$6,463,531, respectively. Following is a listing of future minimum payments receivable under the non-cancelable operating leases in effect for years ending after April 30, 2013; 2014 - \$1,009,872, 2015 - \$33,747, 2016 - \$33,795, 2017 - \$30,245, 2018 - \$30,297 and 2019 to 2023 - \$60,755. As such, total future minimum payments receivable under the non-cancelable operating leases for fiscal years 2014 to 2023 are anticipated to be \$1,198,711.

The Authority has entered into lease agreements with various state operated educational institutions. The building rental payments due from the educational institutions are set at minimal amounts in order to encourage investment in education and training of potential employees for industrial park tenants.

**NOTE H - FEDERAL GRANTS:**

During the year ended April 30, 2013 and 2012, the Authority received grant funds from the Federal Aviation Administration ("FAA") for use on the Authority's airport. The U.S. Office of Management and Budget ("OMB") Circular A-133 and Government Auditing Standards require audits of annual expenditures of federal awards in excess of \$500,000. As the Authority's expenditures of federal awards was less than \$500,000 for the fiscal years ended April 30, 2013 and 2012, audits under Circular A-133 were not required. Total airport income, which included all income received from government grants, for the fiscal years ended April 30, 2013 and 2012 was \$437,465 and \$142,614, respectively.

**OKLAHOMA ORDINANCE WORKS AUTHORITY**  
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**Notes to the Basic Financial Statements**  
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**NOTE I - NON-RECOURSE DEBT AND RELATED LEASE RECEIVABLES:**

In the past, the Authority assisted some of its tenants in obtaining long-term financing through the issuance of industrial revenue bonds. Long-term debt incurred by the Authority is repaid from tenant leases which are payable in amounts equal to the long-term debt service requirements. These long-term financing arrangements are not general obligations of the Authority and it is the opinion of management and its legal counsel that, in the case of default by the borrower(s), the Authority has no responsibility for repayment of such financing arrangements. In accordance with the *American Institute of Certified Public Accountants Audit Guide, Audits of State and Local Governmental Units*, the non-recourse debt financing and the related lease receivables, interest income and interest expense have been excluded from the financial statements. Following is a summary of non-recourse debt at April 30:

	<u>2013</u>	<u>2012</u>
Ralston Purina facility financing-\$1,725,000, 6.5% Series 1996 bonds payable on September 1, 2026, solely from Ralston Purina plant rental revenues	\$ 1,725,000	\$ 1,725,000
Ralston Purina facility financing-\$1,500,000, 6.3% Series 1996 revenue bonds, payable on September 1, 2015, solely from Ralston Purina plant rental revenues	<u>1,500,000</u>	<u>1,500,000</u>
Total non-recourse debt not required to be included within the statements of net assets	<u>\$ 3,225,000</u>	<u>\$ 3,225,000</u>

**NOTE J - RETIREMENT PLAN:**

**State of Oklahoma Public Employees' Retirement Plan**

The Authority contributes to the State of Oklahoma Public Employees' Retirement Plan ("the Plan") which is a cost sharing, multiple-employer defined benefit pension plan, administered by the Oklahoma Public Employees Retirement System (OPERS). The Plan was established by the State in accordance with the Oklahoma State statutes and provides retirement, disability and death benefits. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007, or by calling 1-800-733-9008. The contribution rates for each member category of the OPERS Plan are established by the Oklahoma Legislature, based on actuarial calculations which are performed to determine the adequacy of such contribution rates. The current employer retirement contribution rate for participating state agencies for fiscal year ending April 30, 2013 is 16.5% of salary. Employees who participate in the Plan make contributions of 3.5% of salary or 6.41% of salary if enrolled in the "step-up" plan election.

**Deferred Compensation Plan**

The Authority also offers its employees a deferred compensation plan ("the Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary to future years, subject to current limits imposed by the Internal Revenue Code. The compensation deferred is available to employees upon termination, retirement, death or unforeseeable emergency. All assets and income of the deferred compensation plan are held in trust for the exclusive benefit of the employee. During October of 2000, the Authority also adopted an Internal Revenue Code Section 401(a) plan. This plan became effective in January of 2001. Under this plan, the Authority matches

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**NOTE J - RETIREMENT PLAN – (Continued):**

**Deferred Compensation Plan - Continued**

employee contributions to the 457 plan. The proceeds deferred are available to employees upon termination, retirement, death or unforeseeable emergency. All assets and income of the plan are held in trust for the exclusive benefit of the employee. As per the 401(a) Plan document, the Authority may contribute a matching contribution of a maximum of \$7,400 per employee per year.

**NOTE K - CONCENTRATION(S) OF REVENUES:**

During the fiscal years ended April 30, 2013 and 2012, the Authority earned a significant portion (in excess of 60%) of its total water sales revenues from a single municipal customer. The loss of this municipal customer would have a *material and severe economic impact on the Authority's revenues and change in net assets*. Additionally, the municipal customer noted above has started construction on a municipal water plant and has made public announcements that they intend to discontinue purchasing water from the Authority within the next two years.

**NOTE L - COMMITMENTS AND CONTINGENCIES:**

The Authority is, from time to time, involved in lawsuits arising in the ordinary course of business. As of the date of this report, the Authority is currently involved in two lawsuits in which adverse results would have a material effect on the financial position of the Authority. Management of the Authority and their legal counsel believe that adverse results are possible, but are considered unlikely under the facts presently known and do not believe that a loss contingency is necessary at this time.

The Authority has been involved in ongoing negotiations with the Oklahoma Department of Environmental Quality ("ODEQ") regarding proposed modifications to its renewal permit for discharge from the Authority's wastewater treatment plant into the Grand Neosho River. The Authority was concerned that the ODEQ's proposed modifications could negatively impact the Authority by limiting discharge limits into the Grand Neosho River, thus limiting future growth of the industrial park. Subsequent to the previous fiscal year ended April 30, 2012, the Authority received a revised permit from the ODEQ dated September 1, 2012 which will expire on August 31, 2017. The revised permit allows for 697 pounds of waste treatment discharge per day into the Grand Neosho River from June 1 to October 30 each year and allows for the volume limits allowed by the old permit, 1,584 pounds of waste treatment discharge into the Grand Neosho River, during the remainder of the year.

**NOTE M - SUBSEQUENT EVENTS:**

Subsequent to the end of the current fiscal year, April 30, 2013, the Authority engaged in a transaction with the former industrial park tenant mentioned within Note D and sold the building referenced within this footnote to said tenant, with the \$81,549,861 of non-recourse debt being satisfied. For the upcoming fiscal year ending April 30, 2014, the non-recourse debt due to this former industrial park tenant and the building and all improvements will be removed from the Authority's financial statements with a "gain or loss on sale of assets" being recognized.

OKLAHOMA ORDNANCE WORKS AUTHORITY  
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Supplemental Schedules of Revenues, Expenses and  
Changes in Net Assets by Division  
For the Fiscal Years Ended April 30, 2013 and 2012

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Administration

	<u>2013</u>	<u>2012</u>
Revenues:		
Building rentals	\$ 6,161,394	\$ 6,463,531
Interest income	2,236,726	3,565,188
Airport income	437,465	142,614
Gain on sales of assets	69,216	1,500,723
Income from direct financing leases		104,279
Miscellaneous income	92,380	43,166
Unrealized gain in fair value of investments	709,585	152,760
	9,706,766	11,972,261
Total revenues		
Expenses - operating:		
Wages and payroll	258,781	215,627
General maintenance	173,551	214,303
Other expenses	17,557	13,713
	449,889	443,643
Total operating expenses		
Expenses - general and administrative:		
Administrative salaries	699,057	686,842
Legal fees	379,781	141,813
Marketing	194,989	271,570
Other professional fees	138,702	61,888
Insurance	122,235	110,317
Travel and entertainment	35,799	38,941
Other expenses	53,305	43,748
	1,623,868	1,355,119
Total general and administrative expenses		
Expenses - non-operating:		
Interest	5,224,857	5,224,857
Depreciation	2,278,686	2,575,539
	9,577,300	9,599,158
Total expenses		
Changes in net assets	\$ 129,466	\$ 2,373,103

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDINANCE WORKS AUTHORITY  
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Supplemental Schedules of Revenues, Expenses and  
Changes in Net Assets by Division  
For the Fiscal Years Ended April 30, 2013 and 2012

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Water Plant

	<u>2013</u>	<u>2012</u>
Revenues:		
Water sales	\$ 12,114,819	\$ 11,581,669
Expenses - operating:		
Chemicals	2,417,178	2,443,182
Power	814,051	806,029
Water	705,851	704,975
Wages and payroll	549,086	544,592
General maintenance	188,545	97,268
Waste and sludge disposal	124,396	81,912
Permits and testing	39,045	35,848
Laboratory	9,252	6,565
Other expenses	420,945	339,819
Total operating expenses	<u>5,268,349</u>	<u>5,060,190</u>
Expenses - general and administrative:		
Administrative salaries	636,394	616,639
Insurance	75,494	61,225
Other expenses	8,070	6,114
Total general and administrative expenses	719,958	683,978
Expenses - non-operating:		
Depreciation	<u>1,235,112</u>	<u>1,194,374</u>
Total expenses	<u>7,223,419</u>	<u>6,938,542</u>
Changes in net assets	<u>\$ 4,891,400</u>	<u>\$ 4,643,127</u>

The accompanying notes are an integral part of the financial statements.

OKLAHOMA ORDNANCE WORKS AUTHORITY  
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Supplemental Schedules of Revenues, Expenses and  
Changes in Net Assets by Division  
For the Fiscal Years Ended April 30, 2013 and 2012

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Waste Treatment Plant

	<u>2013</u>	<u>2012</u>
Revenues:		
Waste treatment income	\$ 1,477,406	\$ 1,276,995
Expenses - operating:		
General maintenance	178,509	103,176
Power	174,208	215,824
Wages and payroll	85,780	83,749
Permits and testing	28,955	3,190
Pre-treatment program	25,097	47,257
Waste and sludge disposal	5,125	10,057
Laboratory	3,093	2,796
Water	64	61
Other expenses	3,853	1,318
Total operating expenses	504,684	467,428
Expenses - general and administrative:		
Administrative salaries	211,424	201,080
Travel and entertainment	15,600	16,236
Insurance	10,312	8,092
Other expenses	2,733	1,362
Total general and administrative expenses	240,069	226,770
Expenses - non-operating:		
Depreciation	747,724	746,986
Total expenses	1,492,477	1,441,184
Changes in net assets	\$ (15,071)	\$ (164,189)

The accompanying notes are an integral part of the financial statements.

**Independent's 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 of the  
Oklahoma Ordnance Works Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities of the OKLAHOMA ORDNANCE WORKS AUTHORITY ("the Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the fiscal year ended April 30, 2013, and the related notes to the financial statements, which collectively comprise the OKLAHOMA ORDNANCE WORKS AUTHORITY's basic financial statements and have issued our report thereon dated October 17, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

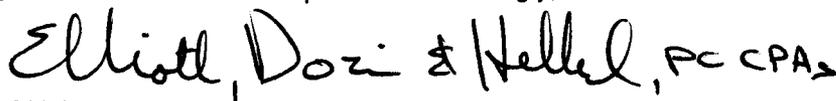
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated October 9, 2013.

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.



Tulsa, Oklahoma  
October 17, 2013