

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

Report on Examination of Financial Statements

For the Fiscal Years Ended April 30, 2014 and 2013

OKLAHOMA ORDNANCE WORKS AUTHORITY (A Public Trust)

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Independent Auditor's Report

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

Report on the Financial Statements

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 fiscal years ended April 30, 2014 and 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 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 audits. We conducted our audits 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.

Opinions

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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

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 through six 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 audits 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.

Report of Independent Certified Public Accountants – (Continued)

Other Matters - (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014 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* in considering Oklahoma Ordnance Works Authority's internal control over financial reporting and compliance.

Elliott, Dozal Helhel, PC CPAs

Tulsa, Oklahoma
October 9, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the OKLAHOMA ORDNANCE WORKS AUTHORITY'S (the "Authority") annual financial report presents our discussion and analysis of the Authority's financial performance for the fiscal year ended April 30, 2014. 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 four parts; (1) Management's discussion and analysis (this section), (2) Basic financial statements (3) Accompanying notes to the basic financial statements and, when applicable, (4) 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, 2014 was a solid year for the Authority. The following comparative condensed financial statements provide a brief overview of the Oklahoma Ordinance Works Authority's financial and operating results:

Comparative Condensed Statements of Net Assets

	<u>April 30, 2014</u>	<u>April 30, 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:				
Current assets	\$ 49,401,967	\$ 45,433,421	\$ 3,968,546	9%
Property and equipment, net	40,544,878	108,813,376	(68,268,498)	-63%
Investments in marketable securities	87,210,867	91,214,327	(4,003,460)	-4%
Total assets	\$ 177,157,712	\$ 245,461,124	\$ (68,303,412)	-28%
Liabilities:				
Current liabilities	\$ 405,655	\$ 415,574	\$ (9,919)	-2%
Long-term debt	-	84,549,861	(84,549,861)	-100%
Total liabilities	405,655	84,965,435	(84,559,780)	-100%
Net assets	176,752,057	160,495,689	16,256,368	10%
Total liabilities and net assets	\$ 177,157,712	\$ 245,461,124	\$ (68,303,412)	-28%

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

	<u>Fiscal Year Ended April 30, 2014</u>	<u>Fiscal Year Ended April 30, 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total operating revenues	\$ 13,629,129	\$ 20,283,464	\$ (6,654,335)	-33%
Expenses:				
Operating	5,542,791	6,222,922	(680,131)	-11%
General and administrative	3,184,318	2,583,895	600,423	23%
Depreciation	2,860,987	4,261,522	(1,400,535)	-33%
Interest	-	5,224,857	(5,224,857)	-100%
Total expenses	11,588,096	18,293,196	(6,705,100)	-37%
Other income:				
Gain or (loss) on sales of assets	14,014,534	69,216	13,945,318	NMF
Interest income	2,703,674	2,236,726	466,948	21%
Unrealized gain/(loss) on investments	(2,502,873)	709,585	(3,212,458)	NMF
Changes in net assets	16,256,368	5,005,795	11,250,573	NMF
Beginning net assets	160,495,689	155,489,894	5,005,795	3%
Ending net assets	\$ 176,752,057	\$ 160,495,689	\$ 16,256,368	10%

* "NMF" indicates that the percent change from the prior year is not meaningful

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, 2014, the Authority's operating cash and certificate of deposit position was \$46,940,051, an increase of \$2,737,429 from the prior year. At April 30, 2014, the balance of total current assets was \$49,401,964, an increase of \$3,968,546 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 \$4,003,460, to \$87,210,867. The reason for these changes was a shift in investment strategy to larger holdings in certificates of deposit and GNMA bonds due to the ongoing low interest rate environment, with U.S. treasury obligations having particularly low rates of interest. Additionally, an unrealized loss in the fair market value of the Authority's holdings in GNMA bonds was recognized. Given the low interest rate environment, the Authority has been attempting to keep durations on investment holdings as short as possible given that interest rates are at historically low levels. Overall, total assets decreased by \$68,303,412 or 28%, to an April 30, 2014, total of \$177,157,712. The reason for the overall large decrease was due to the sale of an industrial park building and the offsetting decrease in long-term debt.

As in the previous year, the Authority's total current liabilities at April 30, 2014, were negligible in comparison to total current assets. Total current liabilities, consisting of accounts payable and various accrued liabilities at April 30, 2014, were \$405,655 as compared to a balance of \$415,574 at April 30, 2013. As mentioned previously, long-term debt decreased from \$84,549,861 at April 30, 2013 to zero at the end of 2014 due to the sale of an industrial park building and the expiration of the terms of a future development fund agreement with an industrial park tenant.

Revenues, Expenses and Changes in Net Assets

At April 30, 2014, the Authority's total operating revenues were \$13,629,129, a decrease of \$6,654,335 or (33%) over the previous year. Total operating revenues for the year ended April 30, 2014 are lower due to a decrease in water sales to the Authority's largest municipal water customer, a decrease in airport income received under a grant from the FAA and a decrease in building rental income due to the expiration of the terms of a building rental agreement as mentioned above. Interest income actually increased from the previous year, due to a slight uptick in interest rates despite the ongoing low-interest rate environment. Also, the Authority recognized a large gain on the sale of certain industrial park property in 2014 which was mentioned previously. Also included in the Authority's total revenues is a downward adjustment of \$2,502,873 in the market valuation of the Authority's investments. Almost all of the Authority's investments are fixed income securities that are held to maturity, 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 that investments, despite their intended holding periods, be adjusted to their fair market values 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 a total change in net assets of \$18,759,241 as compared to the actual change in net assets of \$16,256,368 for the fiscal year ended April 30, 2014.

At April 30, 2014, total operating expenses were \$5,542,791, a decrease of \$680,131 or 11% over the previous year. The primary expense categories that contributed to the decrease in total operating expenses were chemicals, power and raw water. The decreases in all of these categories can primarily be attributed to the decline in total water volume related to water revenues. At April 30, 2014, total general and administrative expenses were \$3,184,318, an increase of \$600,423 or 23% over the previous year. The primary expense categories that caused the increase in total general and administrative expenses were marketing expenses and administrative salaries and wages. 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, 2014, 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, 2014 was \$16,256,368 as compared to a change in net assets of \$5,005,795 for the fiscal year ended April 30, 2013.

**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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 2,240,421	\$ 8,645,538
Certificates of deposit (Notes A and B)	44,699,630	35,557,084
Accounts receivable, net (Note A)	1,171,954	898,635
Accrued interest income receivable	309,672	211,380
Inventory, chemicals (Note A)	93,329	92,260
Prepaid expenses and other current assets	31,937	28,524
Escrow deposit on land purchase (Note L)	855,024	
Total current assets	49,401,967	45,433,421
Investments in marketable securities (Notes A and B):		
Investments in marketable securities, GNMA bonds	79,482,272	44,543,298
Investments in marketable securities, U.S. Treasury obligations	7,648,225	46,604,122
Investments in marketable securities, Common stock	80,370	66,907
Total investments in marketable securities	87,210,867	91,214,327
Property and equipment, net of accumulated depreciation (Notes A and C):		
Industrial park facilities, net	15,836,460	77,629,375
Water plant facilities, net	14,024,204	15,208,428
Waste treatment facilities, net	8,923,986	9,653,264
Construction in progress, non-depreciable	1,725,279	6,296,254
Spare parts, non-depreciable	34,949	26,055
Total property and equipment, net of accumulated depreciation	40,544,878	108,813,376
Total assets	\$ 177,157,712	\$ 245,461,124
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 179,045	\$ 224,586
Accrued liabilities (Note D)	226,610	190,988
Total current liabilities	405,655	415,574
Long-term liabilities:		
Long-term debt (Note C)		84,549,861
Total liabilities	405,655	84,965,435
Net assets (Note E):		
Net assets, unrestricted	136,207,179	51,682,313
Net assets, invested in capital assets	40,544,878	108,813,376
Total net assets	176,752,057	160,495,689
Total liabilities and net assets	\$ 177,157,712	\$ 245,461,124

The accompanying notes are an integral part of these 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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues, operating:		
Water sales (Note J)	\$ 10,840,503	\$ 12,114,819
Waste treatment income	1,495,478	1,477,406
Building rentals (Note F)	1,146,356	6,161,394
Airport income (Note G)	104,454	437,465
Miscellaneous income	42,338	92,380
Total operating revenues	13,629,129	20,283,464
Expenses:		
Operating expenses:		
Chemicals	2,011,269	2,417,178
Wages and payroll	917,516	893,647
Power	913,117	988,259
Water	594,047	705,915
General maintenance	592,772	540,605
Pre-treatment program	47,271	25,097
Permits and testing	39,686	68,000
Laboratory	20,140	12,345
Waste and sludge disposal		129,521
Other expenses	406,973	442,355
Total operating expenses	5,542,791	6,222,922
General and administrative expenses:		
Administrative salaries	1,724,049	1,546,875
Advertising and marketing	630,376	194,989
Legal fees	261,682	379,781
Insurance	225,939	208,041
Other professional fees	150,860	138,702
Travel and entertainment	80,515	51,399
Other expenses	110,897	64,108
Total general and administrative expenses	3,184,318	2,583,895
Income from operations	4,902,020	11,476,647
Other income:		
Gain or (loss) on sales of assets (Notes C and L)	14,014,534	69,216
Interest income	2,703,674	2,236,726
Unrealized gain/(loss), fair value of investments in marketable securities	(2,502,873)	709,585
Other expenses:		
Interest expense		5,224,857
Depreciation expense	2,860,987	4,261,522
Changes in net assets	16,256,368	5,005,795
Net assets, beginning of year	160,495,689	155,489,894
Net assets, end of year	\$ 176,752,057	\$ 160,495,689

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

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Statements of Cash Flows
For the Fiscal Years Ended April 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from customers	\$ 14,837,325	\$ 20,283,464
Cash paid to suppliers and employees	(9,968,145)	(8,045,762)
Interest income	1,495,478	2,236,726
Interest (expense)	_____	(5,224,857)
Net cash provided by or (used in) operating activities	<u>6,364,658</u>	<u>9,249,571</u>
Cash flows from investing activities:		
(Purchases) or redemptions of GNMA bonds	38,958,897	11,994,777
(Purchases) of property and equipment	(5,130,816)	(5,738,651)
(Purchases) or redemptions of certificates of deposit	(9,142,546)	(12,958,399)
(Purchases) or redemptions of U.S. Treasury obligations	(37,455,310)	1,313,084
Proceeds from sales of property and equipment	_____	69,394
Net cash provided by or (used in) investing activities	<u>(12,769,775)</u>	<u>(5,319,795)</u>
Net increase or (decrease) in cash and cash equivalents	(6,405,117)	3,929,776
Cash and cash equivalents, beginning of year	<u>8,645,538</u>	<u>4,715,762</u>
Cash and cash equivalents, end of year	<u>\$ 2,240,421</u>	<u>\$ 8,645,538</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>\$ 18,759,241</u>	<u>\$ 4,296,210</u>
Adjustments to reconcile changes in net assets to net cash provided by or (used in) operating activities:		
Depreciation	2,860,987	4,261,522
(Gain) or loss on sales of assets	(14,014,534)	(69,216)
Changes in assets and liabilities:		
(Increase) or decrease in accounts receivable	(273,319)	382,255
(Increase) or decrease in accrued interest income receivable	(98,292)	108,694
(Increase) or decrease in inventory-chemicals	(1,069)	9,594
(Increase) or decrease in prepaid expenses	(3,413)	296,537
(Increase) or decrease in escrow deposit on land purchase	(855,024)	_____
Increase or (decrease) in accounts payable	(45,541)	(9)
Increase or (decrease) in accrued liabilities	35,622	(36,016)
Total adjustments and changes in assets and liabilities	<u>(12,394,583)</u>	<u>4,953,361</u>
Net cash provided by or (used in) operating activities	<u>\$ 6,364,658</u>	<u>\$ 9,249,571</u>

(a) Non-cash items consisted of unrealized investment gain or (loss) of (\$2,502,873) and \$709,585, respectively.

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

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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

Origins of the Authority and Nature of Activities

The OKLAHOMA ORDINANCE 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 investments in depository accounts available for current use with original maturities of three months or less, when purchased. Cash and cash equivalents consist of checking and money market accounts and are carried at historical cost which approximates market value.

Certificates of Deposit

Certificates of deposit owned by the Authority have durations in excess of three months, when purchased. Certificates of deposit are carried at their respective fair market values, which approximate their historical costs plus accrued interest, if applicable.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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, 2014, 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 in Marketable Securities

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 five hundred 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. Total advertising and other marketing costs were \$630,376 and \$194,989 for the fiscal years ended April 30, 2014 and 2013, respectively.

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.

Reclassifications

Certain amounts from the April 30, 2013 financial statements have been reclassified for comparative purposes to conform to current year presentation with no effect on the change in net assets.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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

Date of Management's Review and Subsequent Events

Subsequent events were evaluated through October 9, 2014 which is the date that the financial statements were available for issuance, noting two additional events that required recognition or disclosure in the accompanying financial statements and footnotes, which is further described in Note L.

NOTE B - BANK DEPOSITS AND INVESTMENTS:

Bank Deposits - Carrying Amounts

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 \$46,939,952 and \$44,202,622 for the fiscal years ended April 30, 2014 and 2013, respectively. The financial institution balances for these deposits totaled \$47,003,943 and \$44,289,697 for the fiscal years ended April 30, 2014 and 2013, respectively. Any differences between the carrying amounts and the financial institution balances are due to outstanding checks and outstanding deposits.

Bank 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 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, 2014 and 2013, 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, GNMA bonds or U.S. Treasury obligations were also held in brokerage money market accounts, which were not covered by FDIC insurance. At April 30, 2014, the Authority's temporary deposits of cash and cash equivalents held in brokerage money market accounts awaiting reinvestment exceeded FDIC insurance levels by \$550,415.

Investments

As of April 30, 2014, the Authority's investments in marketable securities were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Quality</u>	<u>Weighted Average Days to Maturity</u>
GNMA bonds	\$ 79,482,272	\$ 80,871,689	N/A	22 Years
U.S. Treasury obligations	7,648,225	7,645,311	N/A	138 Days
Common stock	<u>80,370</u>	<u>50,496</u>	N/A	NA
Total investments:	<u>\$ 87,210,867</u>	<u>\$ 88,567,496</u>		

Investments - Investment Policy

The Authority has adopted, and is subject to 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. Additionally, the Authority's stated investment objective is to hold all investments to full maturity, thus minimizing the effect of market fluctuations.

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)

Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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

Investments - 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.

Investments - 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 much longer durations. The durations on the investments in GNMA bonds can be as long as thirty years, but these bonds are subject to the potential for early redemption due to pre-payment of the underlying mortgages. As noted below in "interest rate risk", the potential for realized losses does exist if the Authority were to redeem fixed income securities prior to full maturity.

Investments - 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.

Investments - 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 and as such, 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:

<u>EXAMPLE:</u>	Impact on Fair Value of Basis <u>Point (Bps) Increase of:</u>
U.S. Treasury obligation:	<u>100 Bps</u> <u>200 Bps</u> <u>300 Bps</u>
\$1,000,000 Treasury bond, 4% Yield	\$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.

It should be noted that while the Authority's stated investment objective is to hold all investments to full maturity, if the Authority were forced to redeem fixed income securities prior to redemption, losses could be recognized due to the long-term nature of maturities in the GNMA bonds that it holds. In the case of the Authority's investments in GNMA bonds, valuations are impacted by interest rate fluctuations and 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
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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

Investments - Concentration of Investment Issuer Credit Risk

The Authority's investments in marketable securities are diversified to some degree to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of specific class of securities. However, as noted previously, the Authority invests predominantly in two types of securities, U.S. Treasury obligations and GNMA bonds.

Investments - 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 in marketable securities held by the Authority are recorded at fair value in the "Statements of Net Assets" and consisted of the following at April 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments, registered in the Authority's name and held by brokerage firms	\$ 86,999,222	\$ 90,966,042
Investments, registered, and held in certificate form by the Authority	<u>211,645</u>	<u>248,285</u>
Total investments in marketable securities	<u>\$ 87,210,867</u>	<u>\$ 91,214,327</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 hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy under ASC 820 are described as follows:

"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. *The Authority did not hold any "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. *The Authority did not hold any "Level 3" investments as of the reporting date.*

OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

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

Investments – Fair Value Measurements – (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Industrial park facilities:		
Buildings	\$ 18,851,832	\$ 88,382,446
Airport and improvements	5,169,247	4,819,818
Streets and other improvements	2,802,228	2,802,228
Undeveloped land (non-depreciable)	995,931	665,450
Machinery and equipment	732,956	711,965
Computer equipment	401,892	351,147
Furniture and fixtures	390,164	363,159
Automobiles, trucks and tractors	338,698	338,698
Accumulated depreciation	<u>(13,846,488)</u>	<u>(20,805,536)</u>
Total industrial park facilities, net	<u>15,836,460</u>	<u>77,629,375</u>
Water plant and related facilities:		
Equipment	21,152,386	21,134,278
Distribution system	11,570,664	11,521,244
Building	298,454	295,557
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	<u>(19,028,721)</u>	<u>(17,774,072)</u>
Total water plant facilities, net	<u>14,024,204</u>	<u>15,208,428</u>
Waste treatment facilities:		
Waste treatment plant	17,672,369	17,672,369
Landfill	46,161	46,161
Accumulated depreciation	<u>(8,794,544)</u>	<u>(8,065,266)</u>
Total waste treatment facilities, net	<u>8,923,986</u>	<u>9,653,264</u>
Construction in progress (non-depreciable)	1,725,279	6,296,254
Spare parts (non-depreciable)	<u>34,949</u>	<u>26,055</u>
Property and equipment, net of accumulated depreciation	<u>\$ 40,544,878</u>	<u>\$ 108,813,376</u>

OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

NOTE C - PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION – (Continued):

During fiscal year ended April 30, 2014, the Authority engaged in a transaction with a former industrial park tenant and sold the facility formally occupied by Gatorade to said tenant, with \$81,549,861 of non-recourse debt being satisfied upon the sale of the facility.

NOTE D - 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 hours per year with a maximum of two-hundred and forty hours being carried forward. Certain administrative employees are allowed ninety days per year of accrued leave with no maximum that can be carried forward. At April 30, 2014 and 2013, total accrued leave was \$160,416 and \$181,531, respectively, which is included in accrued liabilities.

NOTE E - NET ASSETS:

The Authority's total net assets at April 30, 2014 and 2013 were \$176,752,057 and \$160,495,689, 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 within 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. None of the Authority's net assets are deemed to be restricted.

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 \$47,343,500 will be needed to complete capital projects for fiscal years 2015 through 2017 as per internal projections at April 30, 2014. Included within this capital budget is the cost for the acquisition of various parcels of land adjacent to the industrial park, which is further noted in Note L.

NOTE F - BUILDING RENTALS AND OPERATING LEASES:

For the fiscal years ended April 30, 2014 and 2013, the Authority recognized building rental income of \$1,146,356 and \$936,537, respectively. Following is a listing of future minimum payments receivable under the non-cancelable operating leases in effect for fiscal years ending after April 30, 2014; 2015 - \$1,393,167, 2016 - \$184,901, 2017 - \$134,892, 2018 - \$135,332, 2019 - \$135,786 and 2020 - \$68,552. As such, total future minimum payments receivable under the non-cancelable operating leases for fiscal years ending April 30, 2015 to 2023 are anticipated to be \$2,052,630.

OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

NOTE F - BUILDING RENTALS AND OPERATING LEASES – (Continued):

Included within the building rentals and operating lease totals listed above are lease agreements that the Authority has entered into with various educational institutions operated by the state of Oklahoma. The building rental payments due from the educational institutions are set at nominal annual amounts (ranging from \$1 per year to \$10 per year) in order to encourage investment in education and training of current and potential future employees for industrial park tenants.

NOTE G - FEDERAL GRANTS:

During the year ended April 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013 was \$104,454 and \$437,465, respectively.

NOTE H - 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, 2014 and 2013:

	<u>2014</u>	<u>2013</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>

OKLAHOMA ORDINANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

NOTE I - 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 of Oklahoma 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, 2014 is unchanged from the previous year at 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 and was further amended in December of 2013. Under this plan, the Authority matches 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 \$17,500 per employee for the 2014 calendar year.

NOTE J - CONCENTRATION(S) OF REVENUES:

During the fiscal years ended April 30, 2014 and 2013, 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 will have a material impact on the Authority's operating revenues and change in net assets. Additionally, the municipal customer has completed construction on a municipal water plant and has made public announcements that they intend to discontinue purchasing water from the Authority and would only use the Authority as a secondary source of water. This policy was initiated during the latter part of the current fiscal year and water revenues from this customer are anticipated to be significantly less during the fiscal year ended April 30, 2015 but will increase in future fiscal years.

NOTE K - 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

OKLAHOMA ORDNANCE WORKS AUTHORITY
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Notes to the Basic Financial Statements
As of and For the Fiscal Years Ended April 30, 2014 and 2013

NOTE K - COMMITMENTS AND CONTINGENCIES – (Continued):

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 L - SUBSEQUENT EVENTS:

The Authority and an industrial park tenant engaged in a transaction in a previous fiscal year in which the industrial park tenant acquired land and improvements from the Authority for development purposes. Under the agreement, the Authority was to set aside and hold \$3,000,000 out of the tenant's total remittance for the purchase, from which the tenant could receive a rebate of a portion or all of the \$3,000,000, but only if certain "high impact investment" criteria were met within a specified period. The deadline for meeting the high impact investment criteria and receiving any rebate expired, without being met, during the fiscal year ended April 30, 2014.

Subsequent to the fiscal year ended April 30, 2014, the Authority engaged in various purchases of parcels of land that are adjacent to the boundaries of the industrial park to enhance the future growth of the industrial park. One such purchase of land was in process at the end of the fiscal year and the Authority had placed \$855,024 in escrow as noted on the accompanying Statements of Net Assets.

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, 2014 and 2013

Administration

	<u>2014</u>	<u>2013</u>
Revenues:		
Building rentals	1,146,356	6,161,394
Airport income	104,454	437,465
Miscellaneous income	42,338	92,380
	<u>1,293,148</u>	<u>6,691,239</u>
Total revenues		
Expenses:		
Operating expenses:		
Wages and payroll	256,618	258,781
General maintenance	235,075	173,551
Other expenses	32,357	17,557
	<u>524,050</u>	<u>449,889</u>
Total operating expenses		
General and administrative expenses:		
Administrative salaries	810,706	699,057
Marketing	630,376	194,989
Legal fees	261,682	379,781
Other professional fees	150,860	138,702
Insurance	132,132	122,235
Travel and entertainment	64,627	35,799
Other expenses	99,478	53,305
	<u>2,149,861</u>	<u>1,623,868</u>
Total general and administrative expenses		
Income from operations	(1,380,763)	4,617,482
Other income:		
Gain on sales of assets	14,014,534	69,216
Interest income	2,703,674	2,236,726
Unrealized gain/(loss), fair value of investments in marketable securities	(2,502,873)	709,585
Other expenses:		
Interest expense		5,224,857
Depreciation expense	877,061	2,278,686
	<u>877,061</u>	<u>2,278,686</u>
Changes in net assets	<u>\$ 11,957,511</u>	<u>\$ 129,466</u>

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

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets - by Division
For the Fiscal Years Ended April 30, 2014 and 2013

Water Plant

	<u>2014</u>	<u>2013</u>
Revenues:		
Water sales (Note J)	\$ 10,840,503	\$ 12,114,819
Expenses:		
Operating expenses:		
Chemicals	2,011,269	2,417,178
Power	773,485	814,051
Water	593,975	705,851
Wages and payroll	573,032	549,086
General maintenance	261,925	188,545
Permits and testing	39,686	39,045
Laboratory	15,153	9,252
Waste and sludge disposal		124,396
Other expenses	371,978	420,945
Total operating expenses	4,640,503	5,268,349
General and administrative expenses:		
Administrative salaries	683,763	636,394
Insurance	82,203	75,494
Travel and entertainment	288	
Other expenses	8,770	8,070
Total general and administrative expenses	775,024	719,958
Other expenses:		
Depreciation expense	1,254,648	1,235,112
Changes in net assets	\$ 4,170,328	\$ 4,891,400

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

OKLAHOMA ORDINANCE WORKS AUTHORITY
(A Public Trust)
Supplemental Schedules of Revenues, Expenses and
Changes in Net Assets - by Division
For the Fiscal Years Ended April 30, 2014 and 2013

Waste Treatment Plant

	<u>2014</u>	<u>2013</u>
Revenues:		
Waste treatment income	\$ 1,495,478	\$ 1,477,406
Expenses:		
Operating expenses:		
Power	139,632	174,208
General maintenance	95,772	178,509
Wages and payroll	87,866	85,780
Pre-treatment program	47,271	25,097
Laboratory	4,987	3,093
Water	72	64
Permits and testing		28,955
Waste and sludge disposal		5,125
Other expenses	2,638	3,853
Total operating expenses	378,238	504,684
General and administrative expenses:		
Administrative salaries	229,580	211,424
Travel and entertainment	15,600	15,600
Insurance	11,604	10,312
Other expenses	2,649	2,733
Total general and administrative expenses	259,433	240,069
Other expenses:		
Depreciation expense	729,278	747,724
Changes in net assets	\$ 128,529	\$ (15,071)

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

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 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, 2014, 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 9, 2014.

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 opinions 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, 2014.

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.

Elliott, Dozier & Helland, PC CPAs

Tulsa, Oklahoma
October 9, 2014