

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

Independent Auditor's Report  
and  
Financial Statements

For the Fiscal Years Ended April 30, 2016 and 2015

# OKLAHOMA ORDNANCE WORKS AUTHORITY (A Public Trust)

## Table of Contents

	<u>Page(s):</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 6
Basic Financial Statements:	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to the Basic Financial Statements	10 - 20
Additional Supplementary Information:	
Supplemental Schedules of Revenues, Expenses and Changes in Net Position - by Division	21 - 23
Supplemental Schedule of Expenditures of Federal Awards	24
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the <i>Uniform Guidance</i>	26 - 27
Schedule of Findings	28

## Independent Auditor's Report

To the Board of Trustees of the  
Oklahoma Ordnance Works Authority  
Pryor Creek, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the OKLAHOMA ORDNANCE WORKS AUTHORITY (hereafter referred to as the "Authority"), a public trust created under the laws of the State of Oklahoma, as of and for the fiscal years ended April 30, 2016 and 2015, 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 opinions 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 opinions.

### 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, 2016 and 2015, 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.

### Emphasis of Matter – New Accounting Pronouncement

As discussed in Note A to the basic financial statements, the Authority restated its net position as of May 1, 2015, to reflect the impact of implementation of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### 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

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

### Other Matters - (Continued)

#### Required Supplementary Information – (Continued)

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.

#### Other Information

Our audits were 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. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying supplementary schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying 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 and the schedule of expenditures of federal awards 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 20, 2016 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, Dozier & Helland, PC CPAs*

Elliott, Dozier and Helland, PC, Certified Public Accountants  
Tulsa, Oklahoma  
October 20, 2016



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the OKLAHOMA ORDNANCE WORKS AUTHORITY'S (the "Authority", an Oklahoma Public Trust) annual financial report presents our discussion and analysis of the Authority's financial performance for the fiscal year ended April 30, 2016. 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 ("RSI"). The basic financial statements are provided to the Auditor of the State of Oklahoma, as the Authority is structured as 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 Position
- Statements of Revenues, Expenses and Changes in Net Position
- 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 ("inflows") received and expenses ("outflows") incurred during the fiscal year, regardless of when cash is actually received or paid

#### Notes to the Basic Financial Statements

The footnotes that accompany 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 footnotes 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 following comparative condensed financial statements provide a brief overview of the Oklahoma Ordnance Works Authority's financial and operating results over the past three fiscal years:

**Comparative Condensed Statements of Net Position**

	April 30, 2016	April 30, 2015	April 30, 2014	\$ Change FY 2016 over 2015	Percent Change
<b>Assets:</b>					
Current assets	\$ 52,509,053	\$ 68,374,544	\$ 49,401,967	\$ (15,865,491)	-23%
Investments in marketable securities	82,529,016	65,470,801	87,210,867	17,058,215	26%
Property and equipment, net	51,068,706	47,512,980	40,544,878	3,555,726	7%
Other non-current assets	96,272	101,621		(5,349)	-5%
<b>Total assets</b>	<b>\$ 186,203,047</b>	<b>\$ 181,459,946</b>	<b>\$ 177,157,712</b>	<b>\$ 4,743,101</b>	<b>3%</b>
<b>Liabilities:</b>					
Current liabilities	\$ 314,607	\$ 685,901	\$ 405,655	\$ (371,294)	-54%
Long-term liabilities	383,063			383,063	NMF
<b>Total liabilities</b>	<b>\$ 697,670</b>	<b>\$ 685,901</b>	<b>\$ 405,655</b>	<b>\$ 11,769</b>	<b>2%</b>
Pension accounts, deferred inflows and deferred outflows	\$ 210,391	\$	\$	\$ 210,391	NMF
<b>Net position</b>	<b>\$ 185,294,986</b>	<b>\$ 180,774,045</b>	<b>\$ 176,752,057</b>	<b>\$ 4,520,941</b>	<b>3%</b>

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

	Fiscal Year Ended April 30, 2016	Fiscal Year Ended April 30, 2015	Fiscal Year Ended April 30, 2014	\$ Change FY 2016 over 2015	Percent Change
<b>Total operating revenues, net</b>	<b>\$ 11,323,234</b>	<b>\$ 9,246,161</b>	<b>\$ 13,629,129</b>	<b>\$ 2,077,073</b>	<b>22%</b>
<b>Expenses:</b>					
Operating	3,993,953	4,234,851	5,542,791	(240,898)	-6%
General and administrative	3,712,806	3,693,010	3,184,318	19,796	1%
<b>Total expenses</b>	<b>7,706,759</b>	<b>7,927,861</b>	<b>8,727,109</b>	<b>(221,102)</b>	<b>-3%</b>
<b>Income from operations</b>	<b>3,616,475</b>	<b>1,318,300</b>	<b>4,902,020</b>	<b>2,298,175</b>	<b>174%</b>
<b>Other income, non-operating:</b>					
Interest income	2,968,656	3,110,704	2,703,674	(142,048)	-5%
Unrealized gain or (loss), investments	989,034	2,598,167	(2,502,873)	(1,609,133)	NMF
Gain or (loss), sales of assets	333,620	(7,860)	14,014,534	341,480	NMF
<b>Other expenses, non-operating:</b>					
Depreciation and amortization	3,003,781	2,997,323	2,860,987	6,458	0%
<b>Changes in net position</b>	<b>\$ 4,904,004</b>	<b>\$ 4,021,988</b>	<b>\$ 16,256,368</b>	<b>\$ 882,016</b>	<b>22%</b>

\* For the financial information, above, the acronym "NMF" indicates that the percentage change 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, 2016, the balance of total current assets was \$52,509,053, decrease of \$15,865,491 from the previous year. Included within current assets at April 30, 2016, was the Authority's operating cash position of \$11,067,840 and the Authority's certificate of deposit position of \$40,384,000. At the same time, the total balance of the Authority's investments in marketable securities showed an increase of \$17,058,215, to \$82,529,016. Included within the total increase in investments in marketable securities was an unrealized gain in the fair market value of the Authority's holdings in GNMA bonds of \$989,034 for the fiscal year ended April 30, 2016 was recognized. The reason for these changes was an ongoing shift in investment strategy to larger holdings in certificates of deposit and GNMA bonds due to the ongoing low interest rate environment. Also, the Authority has focused on purchasing GNMA bonds with higher levels of projected pre-payments of principal. Even though these bonds are thirty years in duration, the Authority's focus on projected pre-payments is an attempt to keep durations on investment holdings as short as possible given that interest rates are at historically low levels. Overall, total assets increased by \$4,743,101 or 2.6%, to an April 30, 2016, total of \$186,203,047.

As in the previous year, the Authority's total current liabilities at April 30, 2016, were negligible in comparison to total current assets. Total current liabilities, consisting of accounts payable and various accrued liabilities at April 30, 2016 were \$314,607 as compared to a balance of \$685,901 at April 30, 2015.

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

At April 30, 2016, the Authority's total operating revenues were \$11,323,234, an increase of \$2,077,073 or 22.5% over the previous year. Total operating revenues for the year ended April 30, 2016 are higher due to moderate increases in all categories of operating revenues, but increased over the previous fiscal year primarily due to a federal government grant for the improvement of the Authority's airport runway. Interest income slightly decreased from the previous year due to the ongoing low-interest rate environment. Also included in the Authority's total revenues is an upward adjustment of \$989,034 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 position of \$3,914,970 as compared to the actual change in net position of \$4,904,004 for the fiscal year ended April 30, 2016.

At April 30, 2016, total operating expenses were \$3,993,950, a decrease of \$240,901 or 6% over the previous year. The primary expense categories that contributed to the decrease in total operating expenses were power and general maintenance. At April 30, 2016, total general and administrative expenses were \$3,712,806, an increase of \$19,799 over the previous year. The primary expense categories that caused the increase in total general and administrative expenses were a commitment to workforce development and administrative salaries and wages, payroll taxes and employee benefits. Overall, the total change in net position as of April 30, 2016 showed an increase to a total of \$4,904,004 as compared to the change in net position of \$4,021,988 at April 30, 2015.

**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: Ms. Renee Teel, Director of Finance and Chief Financial Officer  
P.O. Box 945  
Pryor Creek, Oklahoma 74362

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
(A Public Trust)  
**Statements of Net Position**  
April 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 11,067,840	\$ 23,847,226
Certificates of deposit (Notes A and B)	40,384,000	43,338,297
Accounts receivable, net of allowance for doubtful accounts (Note A)	656,686	822,442
Accrued interest income receivable	280,522	253,722
Inventory, chemicals (Note A)	103,332	71,721
Prepaid expenses and other current assets	16,673	41,136
Total current assets	<u>52,509,053</u>	<u>68,374,544</u>
Investments in marketable securities (Notes A and B):		
Investments in marketable securities, GNMA bonds	<u>82,529,016</u>	<u>65,470,801</u>
Total investments in marketable securities, at fair market value	<u>82,529,016</u>	<u>65,470,801</u>
Property, plant and equipment, at historical cost, net (Notes A and C):		
Industrial park facilities, net of accumulated depreciation	24,111,753	20,273,938
Water plant facilities, net of accumulated depreciation	14,599,363	12,965,524
Waste treatment facilities, net of accumulated depreciation	9,120,726	8,118,634
Construction in progress, non-depreciable	3,165,815	6,083,835
Spare parts, non-depreciable	71,049	71,049
Total property, plant and equipment, net of accumulated depreciation	<u>51,068,706</u>	<u>47,512,980</u>
Other non-current assets:		
Prepaid GRDA river pump expenditures, net of accumulated amortization	<u>96,272</u>	<u>101,621</u>
Total assets	<u>\$ 186,203,047</u>	<u>\$ 181,459,946</u>
<b>Deferred outflows of resources:</b>		
Deferred outflows related to pension plans (Note I)	<u>(322,205)</u>	
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	\$ 108,064	\$ 341,410
Accrued liabilities (Note D)	<u>206,543</u>	<u>344,491</u>
Total current liabilities	<u>314,607</u>	<u>685,901</u>
Long-term liabilities:		
Other non-current liabilities (Note I)	<u>383,063</u>	<u>-</u>
Total liabilities	<u>697,670</u>	<u>685,901</u>
<b>Deferred inflows of resources:</b>		
Deferred inflows related to pension plans (Note I)	<u>532,596</u>	
<u>Net Position</u>		
Net position (Note E):		
Net position, unrestricted	134,226,280	133,261,065
Net position, invested in capital assets	<u>51,068,706</u>	<u>47,512,980</u>
Total net position	<u>\$ 185,294,986</u>	<u>\$ 180,774,045</u>

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

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Years Ended April 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Revenues, operating:		
Water sales	\$ 6,342,529	\$ 6,178,643
Building rentals and other rental income (Note F)	1,645,626	1,531,878
Waste treatment income	1,569,614	1,410,038
Airport income, including federal airport improvement awards of \$1,661,404 and \$90,300 for 2016 and 2015, respectively (Note G)	1,765,465	125,602
Total operating revenues	<u>11,323,234</u>	<u>9,246,161</u>
Expenses:		
Operating expenses, direct:		
Chemicals	1,038,333	996,089
Wages, payroll taxes and employee benefits	1,005,955	960,844
Power	649,172	752,822
General maintenance, building and grounds	449,274	597,845
Water	440,768	452,514
Pre-treatment, permits and testing	59,619	64,971
Laboratory	14,521	16,321
Other operating expenses	336,311	393,445
Total operating expenses, direct	<u>3,993,953</u>	<u>4,234,851</u>
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	2,173,966	1,918,816
Advertising and marketing	338,110	790,187
Insurance	283,471	239,593
OPERS retirement adjustment, GASB 68 mandated	210,391	
Workforce development expenses	195,869	
Other professional fees	166,203	374,795
Legal fees	140,712	222,382
Bad debt expense	76,763	
Travel and entertainment	46,129	75,758
Other general and administrative expenses	81,192	71,479
Total general and administrative expenses	<u>3,712,806</u>	<u>3,693,010</u>
Income from operations	<u>3,616,475</u>	<u>1,318,300</u>
Other income, non-operating:		
Interest income	2,968,656	3,110,704
Unrealized gain or (loss), fair market value of investments	989,034	2,598,167
Gain or (loss) on disposals of assets	333,620	(7,860)
Other expenses, non-operating:		
Depreciation and amortization expense	<u>3,003,781</u>	<u>2,997,323</u>
Changes in net position	4,904,004	4,021,988
Net position, beginning of year	180,774,045	176,752,057
Adoption of new accounting standard (Note I)	<u>(383,063)</u>	
Net position, beginning of year, as restated	<u>180,390,982</u>	
Net position, end of year	<u>\$ 185,294,986</u>	<u>\$ 180,774,045</u>

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

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
(A Public Trust)  
**Statements of Cash Flows**  
For the Fiscal Years Ended April 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$ 11,323,234	\$ 9,246,161
Cash paid to suppliers and employees	(7,347,442)	(6,476,341)
Interest income	<u>2,968,656</u>	<u>3,110,704</u>
Net cash provided by or (used in) operating activities	<u>6,944,448</u>	<u>5,880,524</u>
Cash flows from investing activities:		
Proceeds from redemptions, net of purchases of certificates of deposit	2,954,297	1,361,333
Proceeds from disposals of assets	334,042	
(Purchases) of property, plant and equipment and construction in progress	(6,942,992)	(9,923,976)
Proceeds from redemptions, net of (purchases) of GNMA bonds	(16,069,181)	7,651,225
Proceeds from redemptions, net of (purchases) of U.S. Treasury obligations		16,673,799
(Purchases) of spare parts		<u>(36,100)</u>
Net cash provided by or (used in) investing activities	<u>(19,723,834)</u>	<u>15,726,281</u>
Net increase or (decrease) in cash and cash equivalents	(12,779,386)	21,606,805
Cash and cash equivalents, beginning of year	<u>23,847,226</u>	<u>2,240,421</u>
Cash and cash equivalents, end of year	<u>\$ 11,067,840</u>	<u>\$ 23,847,226</u>
Reconciliation of changes in net position to net cash provided by operating activities:		
Changes in net position, net of non-cash investing items (a)	<u>\$ 3,914,970</u>	<u>\$ 1,423,821</u>
Adjustments to reconcile changes in net position to net cash provided by or (used in) operating activities:		
Depreciation and amortization expense	3,003,781	2,997,323
(Gain) or loss on disposals of assets	(333,620)	7,860
Changes in assets and liabilities:		
(Increase) or decrease in accounts receivable	165,756	349,512
(Increase) or decrease in accrued interest income receivable	(26,800)	55,950
(Increase) or decrease in inventory-chemicals	(31,611)	21,608
(Increase) or decrease in prepaid expenses	29,812	(110,820)
(Increase) or decrease in escrow deposit on land purchase		855,024
Increase or (decrease) in accounts payable	(233,346)	162,365
Increase or (decrease) in accrued liabilities	(137,948)	117,881
Increase or (decrease) in other non-current liabilities	383,063	
Increase or (decrease) in deferred outflows related to pension plans	(322,205)	
Increase or (decrease) in deferred inflows related to pension plans	<u>532,596</u>	
Total adjustments and changes in assets and liabilities	<u>3,029,478</u>	<u>4,456,703</u>
Net cash provided by or (used in) operating activities	<u>\$ 6,944,448</u>	<u>\$ 5,880,524</u>

(a) Non-cash investing items consisted of unrealized investment gains of \$989,034 and \$2,598,167, respectively.

The accompanying notes are an integral part of these 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, 2016 and 2015

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

#### Origins of the Authority and Nature of Activities

The OKLAHOMA ORDNANCE WORKS AUTHORITY (hereafter referred to as 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, at certain times, 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 Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 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.

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, *"Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"*. 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.

#### Adoption of New Accounting Standards

During the year, the Authority adopted the following accounting standards: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was an amendment of GASB Statement No. 27. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency. This statement was effective for the Authority during the fiscal year ended April 30, 2016. The implementation of this statement resulted in the restatement of the opening net position of \$180,774,045 to recognize the Authority's portion of "net pension liability".

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement System ("OPERS") plan and additions to/deductions from OPERS and fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

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

**Cash and Cash Equivalents**

For purposes of the accompanying financial statements, cash and cash equivalents consist of all highly liquid bank depository account holdings available for current use with original maturities of three (3) months or less, when initially purchased. Cash and cash equivalents consist of checking and money market accounts which are carried at historical cost that approximates fair market value.

**Certificates of Deposit**

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

**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 accompanying "Statements of Net Position" 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, 2016 and 2015, management of the Authority did not believe that an allowance for doubtful accounts was necessary.

**Inventory**

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

**Investments in Marketable Securities**

The Authority's investment policy statement allows for investments in fixed income securities 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 fair market value based upon published market quotations. While these securities have traditionally been held to maturity by the Authority, they are subject to significant fluctuations in fair market value during the holding period(s) due to long-term maturities.

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

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation of property and equipment is determined by using the straight-line method, calculated over the estimated useful lives of the respective classes of assets, which currently range from five (5) to forty (40) years. The Authority's policy is to consider capitalization for individual property and equipment items with values of \$100 or greater. Lesser amounts are expensed. Routine repairs and maintenance costs for property and equipment are expensed as incurred. Construction in progress represents costs accumulated for various construction projects that were not yet completed at the end of the Authority's fiscal year.

Management of the Authority reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of an asset to undiscounted expected cash flows. Future events could cause the Authority to conclude that impairment indicators exist and that long-lived assets may be impaired.

**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 Oklahoma state statute, the Authority is exempt from Federal and Oklahoma state income taxes. Accordingly, no provision for income taxes has been made within the accompanying 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, 2016 and 2015

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

**Income Tax – (Continued)**

The Authority accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes*. FASB ASC 740 prescribes a recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. Using the guidance of FASB ASC 740, income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will “more likely than not” be sustained upon examination by the taxing authorities. The Authority has analyzed tax positions taken for all required tax filings with the Internal Revenue Service and the State of Oklahoma. As of April 30, 2016 and 2015, the Authority believes that all tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Authority’s financial statements. Accordingly, the Authority has not recorded any reserves or related accruals for uncertain income tax positions at April 30, 2016 and 2015.

**Advertising and Marketing Costs**

The Authority expenses advertising costs in the period in which they are incurred. Total advertising and marketing costs were \$338,110 and \$781,408 for the fiscal years 2016 and 2015, 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.

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

Management of the Authority has evaluated subsequent events through October 20, 2016, which is the date that the financial statements were available for issuance, noting no additional events that required recognition or disclosure in the accompanying financial statements and footnotes.

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

**Bank Deposits - Carrying Amounts**

All bank deposits are held with 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 \$51,451,840 and \$67,185,523 for the fiscal years ended April 30, 2016 and 2015, respectively. The financial institution balances for these deposits totaled \$51,798,052 and \$67,334,300 for the fiscal years ended April 30, 2016 and 2015, respectively. Any differences between the carrying amounts and the financial institution balances are due to outstanding checks and/or 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 held 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, 2016 and 2015, 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. At April 30, 2016, a balance of \$4,158,878 of cash and cash equivalents, awaiting reinvestment, was held in a brokerage money market account. The brokerage money market account is not covered by FDIC insurance but the underlying investments of the money market account consists of U.S. treasury securities, which are backed by the “full faith and credit” of the U.S. government.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

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

Investments

As of April 30, 2016, the Authority's investments in marketable securities were as follows:

	<u>Fair Value</u>	<u>Cost</u>	<u>Credit Quality</u>	<u>Date to Maturity</u>
GNMA bonds	<u>\$ 82,529,016</u>	<u>\$ 80,331,232</u>	"Full Faith and Credit of U.S. Government"	22 Years

Investments - Investment Policy Statement

The Authority has adopted, and is subject to a formal investment policy statement. The primary objective of the Authority's investment policy statement is safety of principal and as such, the Authority is limited to holding investments with some form of U.S. Government guarantee. Under the terms of the Authority's investment policy statement, 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 temporary market fluctuations.

Investments - Issuer Credit Risk and Credit Quality

Issuer credit risk is the risk that an issuer or other counterparty to an investment will default and not fulfill its obligations. In order to address issuer credit risk and overall credit quality of investments, the Authority has a formal, written investment policy statement that defines which securities are suitable for investment. The Authority is guided by the terms of its investment policy statement and invests only in U.S. Treasury obligations and GNMA bonds, both of which are backed by the full faith and credit and/or implicit guarantee of the U.S. government. As such, the Authority has reduced issuer credit risk to the lowest possible level as all investments have some form of guarantee by the U.S. government.

Credit quality for the Authority's investments in U.S. Treasury obligations and GNMA bonds is at the highest possible levels as these investments are backed by the full faith and credit or implicit guarantee of the U.S. Government and the applicable securities are considered to hold virtually 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. The Authority's stated investment objective is to hold all investments to maturity and as such, the Authority believes that 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 investments is directly affected by interest rate fluctuations and significant unrealized losses may occur due to the long-term durations of these investments, as noted below. A hypothetical example of how an investment in fixed-income marketable securities would be impacted by an increase in interest rates is as follows:

<u>HYPOTHETICAL EXAMPLE:</u>	<u>Impact on Fair Value of Basis Point ("Bps") Increase of - Estimated:</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

The example above only assumes changes in interest rates of exactly one hundred (100), two hundred (200) and three hundred (300) basis points. The length of time to maturity or "duration", as noted below, would directly affect the above example as would bid/ask spreads, both of which are not factored into this example.

Investments - Duration Risk and Duration to Maturity

The Authority's investments in GNMA bonds are long-term bonds, most of which are thirty years in duration when initially purchased. However, the GNMA bonds have the potential for early redemption due to prepayment of the underlying mortgages and management of the Authority has historically relied on prepayments of GNMA bonds as a means to re-invest at current interest rates. However, this puts the Authority at risk, in that in a rising interest rate environment these longer term GNMA/mortgage backed securities may not experience similar historical rates of repayments as homeowners may decide to remain in their homes longer and would also not have any incentive to refinance the underlying mortgages.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

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

**Investments - Duration Risk and Duration to Maturity – (Continued)**

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.

**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 fixed income securities. 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 accompanying "Statements of Net Position".

**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 market value. Accordingly, the investments in marketable securities held by the Authority are recorded at fair market value in the accompanying "Statements of Net Position" and consisted of the following at April 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments, registered in the Authority's name and held by brokerage firms	\$ 82,449,076	\$ 65,407,428
Investments, registered, and held in certificate form by the Authority	79,940	63,373
Total investments in marketable securities	<u>\$ 82,529,016</u>	<u>\$ 65,470,801</u>

**Investments – Fair Value Measurements**

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.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

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

**"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 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 market 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Property and Equipment, at historical cost:		
Industrial park facilities:		
Buildings	\$ 22,994,322	\$ 20,124,079
Airport and improvements	7,027,221	5,169,247
Undeveloped land (non-depreciable)	5,215,286	5,230,142
Streets and other improvements	2,957,907	2,817,878
Machinery and equipment	738,125	734,341
Computer equipment	469,179	415,080
Furniture and fixtures	403,387	397,707
Automobiles, trucks and tractors	336,299	338,698
Accumulated depreciation	<u>(16,029,973)</u>	<u>(14,953,234)</u>
Total industrial park facilities, net	<u>24,111,753</u>	<u>20,273,938</u>
Water plant and related facilities:		
Equipment	21,227,165	21,162,819
Distribution system	13,899,238	11,570,664
Building and facilities	677,158	298,454
Water plant land (non-depreciable)	31,421	31,421
Accumulated depreciation	<u>(21,235,619)</u>	<u>(20,097,834)</u>
Total water plant facilities, net	<u>14,599,363</u>	<u>12,965,524</u>
Waste treatment facilities:		
Waste treatment plant and collection system	19,412,159	17,682,327
Landfill	46,161	46,161
Accumulated depreciation	<u>(10,337,594)</u>	<u>(9,609,854)</u>
Total waste treatment facilities, net	<u>9,120,726</u>	<u>8,118,634</u>
Other property and equipment, non-depreciable:		
Construction in progress (non-depreciable)	3,165,815	6,083,835
Spare parts (non-depreciable)	<u>71,049</u>	<u>71,049</u>
Property and equipment, net of accumulated depreciation	<u>\$ 51,068,706</u>	<u>\$ 47,512,980</u>

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

**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 unused accrued leave that the Authority will pay in the form of compensation upon each employee's termination or retirement. The Authority allows employees to carry forward unused paid time off to the next calendar year based on their position and continuous years of service with the Authority. For employees with zero to five (5) years of continuous service, the maximum allowable carry forward amount is twenty (20) days, or one hundred and sixty (160) hours. For employees with five (5) years or more of continuous service, the maximum allowable carry forward amount is thirty (30) days, or two hundred and forty (240) hours. For those employees with thirty (30) or more years of continuous service and certain executive staff employees, the maximum allowable carry forward is ninety (90) days, or seven hundred and twenty (720) hours. At April 30, 2016 and 2015, total accrued leave was \$134,875 and \$166,430, respectively, which is included in accrued liabilities.

**NOTE E - NET POSITION:**

The Authority's total net position at April 30, 2016 and 2015 totaled \$185,294,986 and \$180,774,045, respectively. Net position is further described and 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 position is 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 the balance of the unrestricted net position will be needed to finance future capital improvements within the industrial park. Under the Authority's capital budget, management of the Authority estimates that approximately \$32,460,000 may be needed to complete anticipated capital improvement projects for fiscal years 2017 through 2018 as per internal projections at April 30, 2016.

**NOTE F - BUILDING RENTAL INCOME AND OPERATING LEASES:**

For the fiscal years ended April 30, 2016 and 2015, the Authority recognized building rental and other rental income of \$1,645,626 and \$1,531,878, respectively. Following is a listing of anticipated future minimum rental income payments receivable under the non-cancelable operating leases in effect for the five fiscal years ending after April 30, 2016; 2017 - \$436,729, 2018 - \$283,033, 2019 - \$152,162, 2020 - \$89,628 and 2021 - \$41,522. As such, total future minimum payments receivable under the non-cancelable operating leases for fiscal years ending April 30, 2017 to 2021 are anticipated to be \$1,003,074.

Included within the building rentals and operating lease totals listed above are below-market 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 investments in the education and training of current and potential future employees of industrial park tenants.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

**NOTE G - EXPENDITURES OF FEDERAL AWARDS, AIRPORT IMPROVEMENT PROGRAM:**

Airport Improvement Program Grant

During the year ended April 30, 2016 and 2015, the Authority received certain grant funds from the Federal Aviation Administration ("FAA") for use on the Authority's airport under the FAA's "Airport Improvement Program" or "AIP". 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 \$750,000 in a single fiscal year period. As the Authority's expenditures of federal awards was less than \$750,000 for the previous fiscal year ended April 30, 2015, audit procedures under Circular A-133 were not required. However, for the fiscal year ended April 30, 2016, the Authority's expenditures of federal awards was greater than \$750,000 – see the accompanying supplemental schedule of expenditures of federal awards. Total airport income, which included all income received from federal government grants, for the fiscal years ended April 30, 2016 and 2015 was \$1,765,465 and \$125,602, respectively.

Expenditures of Federal Awards - Basis of Presentation and Significant Accounting Principles

The accompanying "Supplemental Schedule of Expenditures of Federal Awards" (hereafter referred to as "the supplementary schedule") includes the federal award activity of the Authority under certain programs of the federal government for the fiscal year ended April 30, 2016. The information contained within the supplementary schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the supplementary schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Authority. Expenditures reported on the supplemental schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE H - NON-RECOURSE DEBT:**

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, 2016 and 2015:

	<u>2016</u>	<u>2015</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>
Total non-recourse debt not required to be included within the "Statements of Net Position" of the Authority	<u>\$ 1,725,000</u>	<u>\$ 3,225,000</u>

# OKLAHOMA ORDINANCE WORKS AUTHORITY (A Public Trust)

## Notes to the Basic Financial Statements As of and For the Fiscal Years Ended April 30, 2016 and 2015

### NOTE I - RETIREMENT PLAN INFORMATION:

The Authority participated in three retirement plans during the fiscal years ended April 30, 2016 and 2015. The plans currently available to the Authority's employees include one defined benefit plan and two defined contribution plans. The defined benefit plan is the Oklahoma Public Employees Retirement System ("OPERS"). The defined contribution plans include an Internal Revenue Code Section 457 Plan and the Oklahoma State Employees Deferred Compensation Plan/OPERS "Pathfinder" Plan. A summary of significant data for each of the retirement plans is as follows:

The Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68, effective January 1, 2015. The opening net position of fiscal year ended April 30, 2016 was restated.

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

##### Plan Description

The Authority contributes to the State of Oklahoma Public Employees' Retirement Plan (hereafter referred to as "OPERS") which is a cost sharing, multiple-employer defined benefit pension plan, administered by the Oklahoma Public Employees Retirement System, a component unit of the State of Oklahoma. OPERS was established by the State of Oklahoma in accordance with the Oklahoma state statutes and provides retirement, disability and death benefits to its beneficiaries, primarily state, county and local government agency employees. The benefits provided are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901 through 943, as amended, assigns the authority for management and operation of OPERS to the OPERS Board of Trustees.

OPERS issues a publicly available financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, Oklahoma 73152-3007, or by calling (800) 733-9008 or it may also be obtained online at [www.opers.ok.gov](http://www.opers.ok.gov).

##### Vesting

OPERS requires eight years of credited service (including six full years of full-time equivalent employment) to be eligible to vest.

##### Benefits Provided

Employees whose first date of employment with the Authority (or other participating state agency) is on or before November 1, 2015 are eligible to participate in OPERS. Those employees of the Authority (or other participating state agency) whose first date of employment is after November 1, 2015, are covered by the Oklahoma State Defined Contribution System.

##### Contributions

OPERS plan participants and the Authority are required to contribute to OPERS at rate(s) set by state statute. The contribution rates for each member category of OPERS are established and may be amended 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 the fiscal year ended April 30, 2016 is unchanged from the previous year at 16.5% of salary. Employees who participate in OPERS make contributions of 3.5% of salary or 6.41% of salary if enrolled in the "step-up" plan election. Under the "step-up" plan election, OPERS plan participants have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The "step-up" plan election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

**NOTE I - RETIREMENT PLAN INFORMATION – (Continued):**

**Liabilities and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At April 30, 2016, based on an OPERS “schedule of employer allocations” OPERS reported that the Authority’s proportionate share of the net pension liability was \$383,063. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation by OPERS as of June 30, 2015. The Authority’s proportion of the net pension liability was based on the Authority’s share of contributions to the pension plan relative to the contributions of all participating employers. At June 30, 2015, the Authority’s proportion percentage was .10647974%, based on OPERS stated “employer allocation percentage”. For the fiscal year ended April 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources; OPERS – Deferred Outflows of Resources \$322,205 and Deferred Inflows of Resources \$532,596.

**Deferred Compensation Plan**

The Authority also offers a deferred compensation plan (hereafter referred to as “the 457 Plan”) created in accordance with Internal Revenue Code Section 457. The 457 Plan, available to certain employees of the Authority, permits them to defer a portion of their salary to future years, subject to current limits imposed by the Internal Revenue Code. Under an amendment and restatement of the 457 Plan dated February 23, 2016, those employees of the Authority whose first date of employment is on or before November 1, 2015 and have no prior participation in the OPERS plan are eligible to participate in the 457 Plan. Those employees who do not meet this criteria must participate in the Oklahoma Public Employees Retirement Defined Contribution Plan (“Pathfinder”). 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 participants. 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 as follows; (1) a \$2 employer match for each \$1 contributed to the 457 Plan since the beginning of the year until the participant’s aggregate contributions since the beginning of the year to the 457 Plan equals \$1,200, (2) then, \$1.50 for each \$1 thereafter contributed during the remainder of the year to the 457 Plan until the participant’s aggregate contribution since the beginning of the year the 457 Plan equals \$3,200, (3) then, \$.50 for each \$1 thereafter contributed during the remainder to the year to the 457 Plan until the participant’s aggregate contribution since the beginning of the year to the 457 Plan equals the maximum annual contribution limits, pursuant to Section 415(d) of the Internal Revenue Code. As per Internal Revenue Code regulations for 457 Plans, certain employees of the Authority may contribute a maximum of \$18,000 to the 457 Plan for the 2016 calendar year, plus a maximum of \$6,000 in “catch up” contributions for those employees who are age fifty (50) or older.

**Oklahoma Public Employees Retirement Defined Contribution Plan**

Effective November 1, 2015, Oklahoma Legislature enacted legislation requiring a Defined Contribution System be established by OPERS for most state employees first employed by a participating State employer after November 1, 2015. Employees of the Authority who first become employees after November 1, 2015, and have no prior participation in OPERS must participate in the mandatory Defined Contribution Plan (“Pathfinder”) created in accordance with Internal Revenue Code Section 401(a) and 457(b) and chapter 40 of Title 590 of the Oklahoma Statutes. The Defined Contribution Plan is known as “Pathfinder”. Pathfinder and its related Trust(s) are intended to meet the requirements of the Internal Revenue Code and are administered by OPERS. The Board of Trustees of OPERS may amend Pathfinder and its related Trust but no amendment shall authorize or permit any part of the Trust for Pathfinder to be used or diverted to purposes other than for the exclusive benefit of the Pathfinder participants and their beneficiaries. Contribution rates are established by Oklahoma Statute and may be amended by the Oklahoma Legislature. For 2015, the initial period of implementation, employees must make mandatory employee contributions of 4.5% of pre-tax salary to the 401(a) plan and may make additional voluntary contributions to the 457(b) plan, subject to the maximum deferral limit allowed under the Code. Employees are vested 100% for all employee

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

Notes to the Basic Financial Statements  
As of and For the Fiscal Years Ended April 30, 2016 and 2015

**NOTE I - RETIREMENT PLAN INFORMATION – (Continued):**

**Oklahoma Public Employees Retirement Defined Contribution Plan – (Continued)**

contributions. The Authority must make mandatory contributions of 6% of the employee's pre-tax salary and 7% if the employee elects to participate in the 457(b) plan. Employees become vested for the employer contributions based on an established vesting schedule. As of April 30, 2016, the Authority did not have any eligible Pathfinder participants and, therefore, reports no liabilities for Pathfinder at April 30, 2016.

**NOTE J - COMMITMENTS AND CONTINGENCIES:**

In the normal course of business, the Authority makes and receives commitments for purchases of power, water, chemicals and other materials and supplies inventory. In addition, in the normal course of business the Authority enters into agreements which commit the Authority to provide varying amounts of water and waste treatment services to its customers. Management of the Authority does not believe that the honoring of these commitments will have any material, adverse effect on the Authority.

**OKLAHOMA ORDINANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Supplemental Schedules of Revenues, Expenses and**  
**Changes in Net Position - by Division**  
**For the Fiscal Years Ended April 30, 2016 and 2015**

Administration (Includes Maintenance and Workforce Development)

	<u>2016</u>	<u>2015</u>
Revenues, operating:		
Building rentals and other rental income	1,645,626	1,531,878
Airport income, including federal grant awards of \$1,661,404 and \$90,300 for 2016 and 2015, respectively (Note G)	1,765,465	125,602
Total operating revenues	3,411,091	1,657,480
Expenses:		
Operating expenses, direct:		
Wages, payroll taxes and employee benefits	333,043	308,967
General maintenance, building and grounds	151,682	288,356
Water	108	
Other operating expenses	20,763	20,367
Total operating expenses, direct	505,596	617,690
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	964,334	909,552
Advertising and marketing	338,110	781,408
OPERS retirement adjustment, GASB 68 mandated	210,391	
Workforce development expenses	195,869	
Insurance	184,891	141,542
Other professional fees	166,203	301,248
Legal fees	140,712	222,382
Bad debt expense	76,763	
Travel and entertainment	41,910	59,341
Other general and administrative expenses	64,355	74,353
Total general and administrative expenses	2,383,538	2,489,826
Income or (loss) from operations	521,957	(1,450,036)
Other income, non-operating:		
Interest income	2,968,656	3,110,704
Unrealized gain or (loss), fair value of investments in marketable securities	989,034	2,598,167
Gain or (loss) on disposals of assets	333,620	(7,860)
Other expenses, non-operating:		
Depreciation and amortization expense	1,079,138	1,107,553
Changes in net position	\$ 3,734,129	\$ 3,143,422

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, 2016 and 2015**

---

Water Treatment Plant

	<u>2016</u>	<u>2015</u>
Revenues, operating:		
Water sales	\$ 6,342,529	\$ 6,178,643
Expenses:		
Operating expenses, direct:		
Chemicals	1,038,333	996,089
Wages, payroll taxes and employee benefits	580,557	561,601
Power	515,132	605,402
Water	440,660	452,450
General maintenance, building and grounds	170,653	199,955
Pre-treatment, permits and testing	22,574	27,317
Laboratory	13,458	11,611
Other operating expenses	300,036	364,266
Total operating expenses, direct	<u>3,081,403</u>	<u>3,218,691</u>
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	844,754	757,701
Insurance	83,629	83,609
Travel and entertainment	319	766
Other professional fees		70,281
Other general and administrative expenses	13,045	2,821
Total general and administrative expenses	<u>941,747</u>	<u>915,178</u>
Income or (loss) from operations	<u>2,319,379</u>	<u>2,044,774</u>
Other expenses:		
Depreciation and amortization expense	<u>1,196,902</u>	<u>1,074,460</u>
Changes in net position	<u>\$ 1,122,477</u>	<u>\$ 970,314</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, 2016 and 2015**

---

Waste Treatment Plant

	<u>2016</u>	<u>2015</u>
Revenues, operating:		
Waste treatment income	\$ 1,569,614	\$ 1,410,038
Expenses:		
Operating expenses, direct:		
Power	134,040	147,420
General maintenance, building and grounds	126,939	109,534
Wages, payroll taxes and employee benefits	92,355	90,276
Pre-treatment, permits and testing	37,045	37,654
Laboratory	1,063	4,710
Water		64
Other operating expenses	15,512	8,812
Total operating expenses, direct	406,954	398,470
General and administrative expenses:		
Administrative salaries, payroll taxes and employee benefits	364,878	251,563
Insurance	14,951	14,442
Travel and entertainment	3,900	15,651
Other professional fees		3,266
Other general and administrative expenses	3,792	3,084
Total general and administrative expenses	387,521	288,006
Income or (loss) from operations	775,139	723,562
Other expenses:		
Depreciation and amortization expense	727,741	815,310
Changes in net position	\$ 47,398	\$ (91,748)

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

**OKLAHOMA ORDINANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Supplemental Schedule of Expenditures of**  
**Federal Awards**  
**For the Fiscal Year Ended April 30, 2016**

---

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>	<u>Expenditures to Sub-recipients</u>
United States of America, Department of Transportation, Federal Aviation Administration:				
Direct Programs:				
<u>Airport Improvement Program ("AIP")</u> (See Note G)	20-106	NA	\$ 1,661,404	\$ -
Grant for designated airport improvement program for rehabilitation of runway 18/36 and taxiway under AIP grant number: 3-40-0082-011-2015.				
Total expenditures of federal awards			<u>\$ 1,661,404</u>	<u>\$ -</u>

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  
Tulsa, Oklahoma

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, 2016, 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 20, 2016.

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.

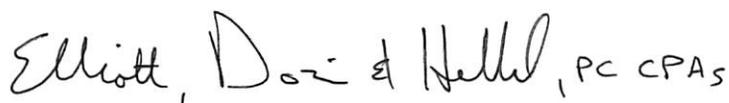
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

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 and Helland, PC, Certified Public Accountants  
Tulsa, Oklahoma  
October 20, 2016

**Independent Auditor's Report on Compliance for A Major Program  
and on Internal Control Over Compliance Required by The Uniform Guidance**

To the Board of Trustees of the  
Oklahoma Ordnance Works Authority  
Tulsa, Oklahoma

Report on Compliance for Each Major Program

We have audited the Oklahoma Ordnance Works Authority's compliance with the types of compliance requirements described in the *OMN Compliance Supplement* that could have a direct and material effect on Oklahoma Ordnance Works Authority's major federal program for the year ended April 30, 2016. Oklahoma Ordnance Works Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Oklahoma Ordnance Works Authority's federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Oklahoma Ordnance Works Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the federal program. However, our audit does not provide a legal determination on the Oklahoma Ordnance Works Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Oklahoma Ordnance Works Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2016.

Report on Internal Control over Compliance

Management of the Oklahoma Ordnance Works Authority, is responsible for establishing and maintaining effective internal control with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Oklahoma Ordnance Works Authority's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine that the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Oklahoma Ordnance Works Authority's internal control over compliance.

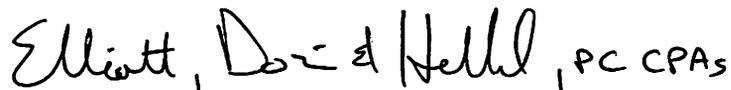
**Independent Auditor's Report on Compliance for A Major Program  
and on Internal Control Over Compliance Required by The Uniform Guidance – (Continued)**

Report on Internal Control over Compliance – (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Elliott, Dozier and Helland, PC, Certified Public Accountants  
Tulsa, Oklahoma  
October 20, 2016

**OKLAHOMA ORDNANCE WORKS AUTHORITY**  
**(A Public Trust)**  
**Schedule of Findings**  
**As of and For the Fiscal Year Ended April 30, 2016**

**A. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

1.	Type of Financial Statement Opinion	Unmodified
2.	Were there any material weaknesses in internal control reported at the financial statement level?	No
3.	Were there any significant deficiencies in internal control reported at the financial statement level?	No
4.	Was there any reported material non-compliance at the financial statement level?	No
5.	Were there any material weaknesses in internal control reported for major federal programs?	No
6.	Were there any significant deficiencies in internal control reported for major federal programs?	No
7.	Type of Major Programs' compliance opinion	Unmodified for all Major Programs
8.	Are there any reportable findings under 2 CFR § 200.516(a)?	No
9.	Major Programs:	Airport Improvement Program
10.	Dollar Threshold: Type A, Type B Programs	Type A: > \$ 750,000 Type B: all others
11.	Low Risk Auditee under 2 CFR §200.520?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

1. No instances of non-compliance material to the financial statements of the Oklahoma Ordnance Works Authority were noted during the audit of the financial statements for the fiscal year ended April 30, 2016.
2. No findings or questioned costs were noted during the audits of the Oklahoma Ordnance Works Authority were noted during the audit of the financial statements for the fiscal year ended April 30, 2016.