

STROUD INDUSTRIAL AUTHORITY
(a Component Unit of the City of Stroud, Oklahoma)

FINANCIAL STATEMENTS

JUNE 30, 2014

WITH

INDEPENDENT AUDITOR'S REPORT

Stroud Industrial Authority
(a component unit of the City of Stroud, Oklahoma)
June 30, 2014

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Independent Auditor's Report

Board of Trustees
Stroud Industrial Authority
Stroud, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of Stroud Industrial Authority (the Authority) as of and for the year ended June 30, 2014, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Stroud Industrial Authority as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Stroud Industrial Authority has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental 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. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 1, 2015 on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Judith K Ballard, CPA, PC

Stroud, Oklahoma
June 1, 2015

STROUD INDUSTRIAL AUTHORITY
(a Component Unit of the City of Stroud, Oklahoma)

STATEMENT OF NET POSITION

June 30, 2014

Assets

Current Assets

Cash	\$ 1,126,886
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Total current assets

1,126,886

Noncurrent Assets

Land	213,252
Buildings, net of accumulated depreciation	<u>2,497,316</u>

Total noncurrent assets

2,710,568

Total assets

\$ 3,837,454

Liabilities

Current liabilities:

Accounts payable and accrued liabilities	192
Current portion of long-term debt	<u>42,108</u>

Total current liabilities

42,300

Non-current liabilities:

Notes payable	<u>683,529</u>
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Total non-current liabilities

683,529

Total liabilities

725,829

Net position

Invested in capital assets, net of related debt	1,984,931
Unrestricted	<u>1,126,694</u>

Total net position

\$ 3,111,625

See notes to financial statements

Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Year ended June 30, 2014

Operating revenues:	
Rental revenue	\$ 272,680
Fuel revenue	1,553
Miscellaneous revenue	1,400
Total operating revenues	<u>275,633</u>
Operating expenses:	
Legal and professional	639
Miscellaneous	12,007
Fuel expense	7,752
Interest	46,101
Depreciation and amortization	126,623
Total operating expenses	<u>193,122</u>
Operating income (loss)	<u>82,511</u>
Non-operating revenues/(expenses):	
Interest and investment income	<u>2,923</u>
Total non-operating revenues	<u>2,923</u>
Income (loss) before other revenues, expenses, losses and transfers	85,434
Capital Contributions, Special and Extraordinary Items and Transfers	
Transfers to primary government	(106,334)
Total Capital Contributions, Special and Extraordinary Items and Transfers	<u>(106,334)</u>
Change in net position	(20,900)
Net position, beginning of year	<u>3,132,525</u>
Net position, end of year	<u><u>\$3,111,625</u></u>

See notes to financial statements

Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)
Statement of Cash Flows
For the year ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$275,633
Payment to suppliers	(31,583)
Payments to employees	0
Net cash provided (used) by operating activities	<u>244,050</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Transfers to primary government	(106,334)
Net cash provided (used) by noncapital financing activities	<u>(106,334)</u>

CASH FLOWS FROM CAPITAL AND

RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(96,659)
Principal paid on notes payable	(35,009)
Interest Expense	(46,101)
Net cash provided (used) by capital and related financing activities	<u>(177,769)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	2,923
Net cash provided (used) by investing activities	<u>2,923</u>

Net increase (decrease) in cash equivalents (37,130)

Cash and cash equivalents, beginning of the year 1,164,016

Cash and cash equivalents, end of the year \$1,126,886

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:

Operating income/(loss)	82,511
Depreciation expense	126,623
Interest Expense	46,101
Decrease in Accounts Payable	(11,185)
Net cash provided by (used in) operating activities	<u><u>\$244,050</u></u>

See notes to financial statements

**Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 1- Summary of Significant Accounting Policies

Organization

The Stroud Industrial Authority (the Authority) (a Component Unit of the City of Stroud, Oklahoma), is a public trust created February 25, 1974, with the City of Stroud, Oklahoma as beneficiary. The trust is managed by a five member board, one from the members of the City Council, and each of the other four is subject to approval by the City Council of the City of Stroud, Oklahoma (the City). The City is separately audited by an independent auditor.

The purpose of the Authority is to promote economic development within and near Stroud, Oklahoma through financing of various facilities. Its activities primarily consist of arranging financing to industrial, commercial and other organizations.

Basis of presentation

The financial statements of the Authority have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Investment income is included in non-operating revenues and expenses.

The Authority prepares its financial statements as a business-type activity in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

Budget

The Authority has not adopted an annual operating budget.

Capital assets

Capital assets are recorded at cost and are depreciated under the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to operations when incurred, and improvements are capitalized.

Income taxes

No provision has been made for federal and state income taxes since the Authority is a tax-exempt organization as an agency of the State of Oklahoma.

Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 those estimates.

Net position

The Authority's net position is classified as follows:

Invested in capital assets: This represents the Authority's total investment in capital assets, net of outstanding debt obligations and accounts payable related to those capital assets.

Restricted net assets: Restricted net assets include resources in which the Authority is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets represent resources derived from all other sources not included in the other two categories.

Classification of revenues

The Authority has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis* – for State and Local Governments investment income.

Note 2- Cash and Short-term Investments

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to it. The Authority's deposits were fully covered by FDIC insurance and securities held by the pledging financial institution's trust department or agent in the entity's name at June 30, 2014.

Note 3- Capital Assets

Capital assets are valued at historical cost. Donated capital assets are valued at the estimated fair value at the date of donation. Depreciation is provided over the estimated

Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

useful lives using the straight-line method. Depreciation expense is \$126,623 for the year ended June 30, 2014.

A summary of the changes in capital assets is as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	213,252	-	-	213,252
Construction-in-progress	-	-	-	-
Total capital assets, not depreciated	213,252	-	-	213,252
Capital assets, being depreciated:				
Buildings	2,823,049	96,658	-	2,919,707
Total capital assets, being depreciated	2,823,049	96,658	-	2,919,707
Accumulated depreciation				
Buildings	(295,768)	(126,623)	-	(422,391)
Total accumulated depreciation	(295,768)	(126,623)		(422,391)
Capital assets, net	2,740,533	(29,965)	-	2,710,568

Note 4- Rental Income

Stroud Industrial Authority owns land and buildings in the Stroud Midway Industrial Park as well as a building at the airport facility which are rented by various companies for their use. During the year, rental income of \$272,680 was received from the various companies.

Note 5 -EOG Spec Building at the Stroud Industrial Midway

The Authority entered into an agreement with EOG Resources Railyard to lease/purchase facilities at the Midway for \$5,750 per month for 60 months beginning May 2010. At the end of the lease term, EOG has the option to purchase the property for \$269,640. If EOG desires to exercise the option prior to the termination of the lease, the purchase price is \$269,640 plus the remaining lease payments left on the lease.

Note 6 - Mint Turbine Airport Project

Stroud Industrial Authority completed the construction of the building at the airport to be leased/purchased to Mint Turbine during the fiscal year 2011. To help fund the purchase of the land, the Authority had borrowed \$100,000 from the Lincoln County Industrial Authority. The loan is to be repaid in quarterly installments of \$5,000 and the balance at the current fiscal year end is \$15,000.

**Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

In addition, the Authority had borrowed \$800,000 from Spiritbank, now RCB, in Stroud, OK. The first principle and interest payment on that loan was made June 2011. The balance at June 30, 2014 was \$710,637.

Lease/Purchase

Stroud Industrial Authority entered into two lease/purchase agreements with Mint Turbines, LLC whereby the Authority will lease/purchase the facilities discussed above to Mint Turbines. The first agreement, dated May 14, 2010, calls for monthly lease payments of \$2,708 for 60 months.

The second agreement, also dated May 14, 2010, calls for monthly payments of \$6,000 per month for 240 months (20 years). Both lease payments began July 2010.

At the end of the 20 year lease term, Mint Turbines LLC has the option to purchase the property for one dollar. An early buy-out is prohibited by the grant specifications.

Note 7- Long-term debt

Long-term liabilities of the Authority as of June 30, 2012⁴ are summarized as follows:

\$800,000 promissory note, to Spiritbank/RCB , dated September 2010, payable in monthly installments of \$ 6,010 over 20 years including interest at 6.50%.	\$710,637
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\$100,000 Lincoln County Industrial Authority promissory note, dated February 2010, payable in quarterly payments of \$5,000 at an interest rate of 0%.	<u>\$15,000</u>
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\$725,637

Long-term liabilities transactions for the year ended June 30, 2014, and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Spiritbank/RCB	730,646	-	(20,009)	710,637	27,108
Lincoln County Industrial Authority	30,000	-	(15,000)	15,000	15,000
Total Long-term Debt	760,646	-	(35,009)	725,637	42,108

Stroud Industrial Authority
(a Component Unit of the City of Stroud, Oklahoma)

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

The following is a summary of the Authority's future annual debt requirements:

<u>Fiscal Year Ending</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 42,108	\$ 45,060	\$ 87,168
2016	28,580	43,588	72,168
2017	30,495	41,673	72,168
2018	32,537	39,631	72,168
2019	34,716	37,452	72,168
2020-2024	211,730	149,110	360,840
2025-2029	292,783	68,057	360,840
2030-2034	<u>52,688</u>	<u>1,152</u>	<u>53,840</u>
Totals	\$725,637	\$425,723	\$1,151,360

Note 8- Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority is covered under the general liability insurance plan of the City of Stroud, OK.

Note 9- Subsequent Events

The Authority has considered subsequent events through June 1, 2015, the date which the financial statements were available for release. The Authority is not aware of any items which need to be disclosed during that period.

Note 10- Transfer to Primary Government

During the fiscal year, the Authority transferred \$106,334 to the City of Stroud for airport projects implemented during the year.

Note 11- Beginning Net Position Restatement

GASB Statement No. 65, issued March 2012, states that costs related to debt issuance will no longer be recorded as a deferred charge and amortized over the life of the debt; they should instead be recognized as an expense in the period incurred. Accounting changes to comply with this statement should be applied retroactively by restating financial statements for all prior periods presented. As a result, the beginning net position has been reduced by \$10,595.

JUDITH K. BALLARD, CPA, PC

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

Board of Trustees
Stroud Industrial Authority
Stroud, Oklahoma

I 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 Stroud Industrial Authority (Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued my report thereon dated June 1, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance 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 my 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.



Stroud, Oklahoma
June 1, 2015