

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2012**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**



**STROUD INDUSTRIAL AUTHORITY**  
**(a Component Unit of the Town of Stroud, Oklahoma)**  
**June 30, 2012**

**Management Discussion and Analysis**

The Management Discussion and Analysis (MD&A) is intended to aid the reader in recognizing any significant issues and changes in the financial position of Stroud Industrial Authority. The MD&A should be used in conjunction with the financial statements and notes as a whole.

**Financial Statements**

***Condensed Statement of Net Assets***

|                                     | <u>2012</u>               |
|-------------------------------------|---------------------------|
| Current assets                      | \$1,146,868               |
| Long-term assets                    | <u>2,856,034</u>          |
| Total assets                        | <u><u>\$4,002,902</u></u> |
|                                     |                           |
| Current liabilities                 | \$55,789                  |
| Long-term liabilities               | <u>759,099</u>            |
| Total liabilities                   | <u><u>\$814,888</u></u>   |
|                                     |                           |
| Net assets:                         |                           |
| Invested in capital assets          | 2,041,872                 |
| Restricted for capital improvements | 1,146,142                 |
| Unrestricted                        | <u>0</u>                  |
| Total liabilities and net assets    | <u><u>\$4,002,902</u></u> |

As of June 30, 2012, Stroud Industrial Authority's total assets of \$4,002,902 consisted of restricted cash and investments of \$1,146,868, unamortized bond issue costs of \$11,184, and net fixed assets of \$2,844,850.

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

|                                 | <u>2012</u>    |
|---------------------------------|----------------|
| Operating Revenues              | <u>\$0</u>     |
| Total operating revenue         | 0              |
| Expenses:                       |                |
| Legal                           | 5,669          |
| Miscellaneous                   | 5,460          |
| Interest                        | 49,846         |
| Depreciation and amortization   | <u>125,666</u> |
| Total expenses                  | <u>186,641</u> |
| Operating loss                  | (186,641)      |
| Non-operating income            | 253,032        |
| Gain on sales of land           | 625,596        |
| Non-operating expenses          | (10,000)       |
| Transfers to primary government | (157,724)      |
|                                 | <u>524,263</u> |
| Change in net assets            | <u>524,263</u> |

Stroud Industrial Authority sold 51.1 acres of land in the Midway Industrial Park during the fiscal year for a total sales price of \$780,000, resulting in a gain of \$625,596 over the cost basis of the land and related selling expenses. In June 2012, \$152,724 was transferred over to the City of Stroud's Street and Alley Fund to help with street improvements.

**Independent Auditor's Report**

Board of Trustees  
Stroud Industrial Authority  
Stroud, Oklahoma

I have audited the accompanying statement of net assets of Stroud Industrial Authority (the Authority) (a Component Unit of the City of Stroud, Oklahoma), as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the City of Stroud, Oklahoma's management. My responsibility is to express opinions 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2012 on my consideration of the Stroud Industrial 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 considered in assessing the results of my audit.

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis on pages i through ii be presented to supplement the basic financial statements. Such 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Stroud, Oklahoma  
December 20, 2012

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

**STATEMENT OF NET ASSETS**

**June 30, 2012**

**Assets**

Current Assets

Cash \$ 1,146,868

Total current assets 1,146,868

Noncurrent Assets

Bond issue costs - net 11,184

Land 213,252

Buildings, net of accumulated depreciation 2,631,598

Total noncurrent assets 2,856,034

Total assets \$4,002,902

**Liabilities**

Current liabilities:

Accounts payable and accrued liabilities 11,910

Current portion of long-term debt 43,879

Total current liabilities 55,789

Non-current liabilities:

Notes payable 759,099

Total non-current liabilities 759,099

Total liabilities 814,888

**Net assets**

Invested in capital assets 2,041,872

Restricted for capital improvements 1,146,142

Unrestricted -

Total net assets 3,188,014

Total liabilities and net assets \$4,002,902

See notes to financial statements

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

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

**Year ended June 30, 2012**

|   |                           |
|---|---------------------------|
| Operating revenues:   | <u>\$0</u>                |
| Total operating revenues  | <u>0</u>                  |
| Operating expenses:   |                           |
| Legal   | 5,669                     |
| Miscellaneous   | 5,460                     |
| Interest  | 49,846                    |
| Depreciation and amortization   | <u>125,666</u>            |
| Total operating expenses  | <u>186,641</u>            |
| Operating loss  | (186,641)                 |
| Non-operating revenues/(expenses):  |                           |
| Grant Expense   | (10,000)                  |
| Gain on sale of assets  | 625,596                   |
| Miscellaneous revenue   | 100                       |
| Rental Income   | 249,925                   |
| Interest and investment income  | 3,007                     |
|   | <u>868,628</u>            |
| Total non-operating revenues  | <u>868,628</u>            |
| Income (loss) before other revenues, expenses, losses<br>and transfers                                  | 681,987                   |
| Capital Contributions, Special and Extraordinary Items and Transfers<br>Transfers to primary government | (157,724)                 |
|   | <u>(157,724)</u>          |
| Total Capital Contributions, Special and Extraordinary Items and Transfers                              | <u>(157,724)</u>          |
| Change in net assets  | 524,263                   |
| Net assets, beginning of year   | <u>2,663,751</u>          |
| Net assets, end of year   | <u><u>\$3,188,014</u></u> |

See notes to financial statements

**Stroud Industrial Authority**  
**(a Component Unit of the Town of Stroud, Oklahoma)**  
**Statement of Cash Flows**  
**For the year ended June 30, 2012**

|   | 2012        |
|---|-------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>  |             |
| Receipts from customers   | \$0         |
| Payment to suppliers  | (12,040)    |
| Payments to employees   | 0           |
| Net cash provided (used) by operating activities  | (12,040)    |
| <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>   |             |
| Rental Proceeds   | 255,675     |
| Miscellaneous income  | 100         |
| Grant Expense   | (10,000)    |
| Operating transfers in (out)  | (157,724)   |
| Net cash provided (used by noncapital financing activities)   | 88,051      |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>                                |             |
| Proceeds from / (paid) debt issuance  | (67,745)    |
| (Acquisition) disposition of capital assets and projects  | 711,077     |
| Interest Expense  | (49,846)    |
| Net cash provided (used) by capital and related financing activities                                  | 593,486     |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>  |             |
| (Increase) decrease in investments  | \$104,192   |
| Interest received   | 3,007       |
| Net cash provided (used) by investing activities  | 107,199     |
| Net increase (decrease) in cash equivalents   | 776,696     |
| Cash and cash equivalents, beginning of the year  | 370,172     |
| Cash and cash equivalents, end of the year  | \$1,146,868 |
| <b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b> |             |
| Operating income/(loss)   | (186,641)   |
| Depreciation and amortization expense   | 125,666     |
| Interest Expense  | 49,846      |
| Decrease in Accounts Payable  | (911)       |
| Net cash provided by (used in) operating activities   | (\$12,040)  |
| Cash classified as:   |             |
| Restricted  | \$1,146,868 |

See notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 1- Summary of Significant Accounting Policies**

Organization

The Stroud Industrial Authority (the Authority) ( a Component Unit of the Town of Stroud, Oklahoma), is a public trust created February 25, 1974, with the Town of Stroud, Oklahoma as beneficiary. Trustees include a member of the council of the Town of Stroud and four additional trustees subject to approval of the City Council of the Town of Stroud. The Authority is an agency of the State of Oklahoma.

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 applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements. The Authority uses the accrual basis of accounting under which revenues are accrued as earned and expenses are recorded as they are incurred.

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.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

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 assets

The Authority's net assets are 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. SIA has no unrestricted net assets.

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, 2012.

**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 useful lives using the straight-line method. Depreciation expense is \$125,077 for the year ended June 30, 2012.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

|   | June 30, 2011 | Additions | Disposals | June 30, 2012 |
|---|---------------|-----------|-----------|---------------|
| Capital assets, not being depreciated:  |               |           |           |               |
| Land                                    | 298,733       | 67,363    | (152,844) | 213,252       |
| Construction-in-progress                | -             | -         | -         | -             |
| Total capital assets, not depreciated   | 298,733       | 67,363    | (152,844) | 213,252       |
| Capital assets, being depreciated:      |               |           |           |               |
| Buildings                               | 2,801,849     | -         | -         | 2,801,849     |
| Total capital assets, being depreciated | 2,801,849     | -         | -         | 2,801,849     |
| Accumulated depreciation                |               |           |           |               |
| Buildings                               | (45,174)      | (125,077) | -         | (170,251)     |
| Total accumulated depreciation          | (45,174)      | (125,077) |           | (170,251)     |
| Capital assets, net                     | 3,055,408     | (57,714)  | (152,844) | 2,844,850     |

**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 \$249,925 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 last fiscal year. 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 \$50,000. To fund the cost of the construction, the Authority had received a \$1,000,000 grant from the Oklahoma Department of Commerce (14040 CDBG) and a \$203,267 grant from the same (14042 SCDBG). The grants were awarded February 2010 and the project was completed with final inspection January 2011.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

June 30, 2012 was \$752,978. The Authority used \$247,040 of its own funds to complete the project.

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, 2012 are summarized as follows:

|   |                  |
|---|------------------|
| \$800,000 promissory note, to Spiritbank ,<br>dated September 2010, payable in monthly installments of<br>\$ 6,010 over 20 years including interest at 6.50%. | \$752,978        |
| \$100,000 Lincoln County Industrial Authority promissory note, dated<br>February 2010, payable in quarterly payments of \$5,000 at<br>an interest rate of 0%. | <u>\$50,000</u>  |
|   | <u>\$802,978</u> |

Long-term liabilities transactions for the year ended June 30, 2012, and changes therein were as follows:

|                                     |         |   |          |         |        |
|-------------------------------------|---------|---|----------|---------|--------|
| Spiritbank                          | 795,723 | - | -42,745  | 752,978 | 23,879 |
| Lincoln County Industrial Authority | 75,000  | - | (25,000) | 50,000  | 20,000 |
|                                     |         |   |          |         |        |
| Total Long-term Debt                | 870,723 | - | (67,745) | 802,978 | 43,879 |

**Note 8- Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Authority expects such amounts, if any, to be immaterial.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**Note 9- Sale of Land in Midway Industrial Park**

In April 2012, Stroud Industrial Authority sold 51.1 acres of industrial park land for \$780,000. This represented a gain of \$625,596 over the basis of the land (\$152,844) and related selling expenses (\$1,560).

**Note 10- Transfer to Primary Government**

During the fiscal year, the Authority contributed \$5,000 to the City of Stroud's project of installing a city skate park. The Authority also contributed \$152,724 to the City of Stroud's Street Department to be used for street improvements.

**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  
City of Stroud, Oklahoma

I have audited the statement of net assets of Stroud Industrial Authority (the Authority) (a Component Unit of the City of Stroud, Oklahoma), as of June 30, 2012, and related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended and have issued my report thereon dated December 20, 2012. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures 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 over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

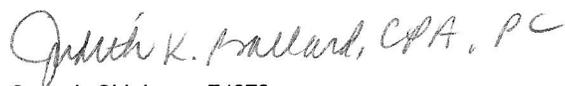
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination 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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Stroud, Oklahoma 74079  
December 20, 2012