

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

**FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

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**STROUD INDUSTRIAL AUTHORITY**  
**(a Component Unit of the Town of Stroud, Oklahoma)**  
**June 30, 2011**

**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>2011</u>
Current assets	\$480,114
Long-term assets	<u>3,067,181</u>
Total assets	<u><u>\$3,547,295</u></u>
Current liabilities	\$53,838
Long-term liabilities	<u>829,706</u>
Total liabilities	<u><u>\$883,544</u></u>
Net assets:	
Invested in capital assets	2,184,685
Restricted for capital improvements	479,066
Unrestricted	<u>0</u>
Total liabilities and net assets	<u><u>\$3,547,295</u></u>

As of June 30, 2011, Stroud Industrial Authority's total assets of \$3,547,295 consisted of restricted cash and investments of \$474,364, a receivable for rental income of \$5,750, unamortized bond issue costs of \$11,773, and net fixed assets of \$3,055,408.

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

	<u>2011</u>
Operating Revenues	<u>\$0</u>
Total operating revenue	0
Expenses:	
Legal	1,617
Miscellaneous	4,277
Interest	11,356
Depreciation and amortization	<u>39,216</u>
Total expenses	<u>56,466</u>
Operating loss	(56,466)
Non-operating income	227,936
Non-operating expenses	0
Transfers from primary government	1,129,192
Capital Contributions	39,580
	<u>                    </u>
Change in net assets	<u><u>1,340,242</u></u>

Stroud Industrial Authority received \$1,203,267 from the Town of Stroud to finance the construction of facilities at the airport for Mint Turbines LLC. The Town had received the funds from two grants from the Oklahoma Department of Commerce, CDBG 14040 for \$1,000,000 and SCDBG 14042 for \$203,267. Of this amount, \$74,075 had been expended in last fiscal year and revenue for the same amount was accrued at that time, leaving the remaining \$1,129,192 recorded as revenue (transfers in) this fiscal year.

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**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, 2011, 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, 2011, 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 2, 2011 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stroud Industrial Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Quinn Ballard, CPA, PC*

Stroud, Oklahoma  
December 2, 2011

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

**STATEMENT OF NET ASSETS**

June 30, 2011

	<u>2010</u>
<b>Assets</b>	
Current Assets	
Cash	\$ 370,172
Investments	104,192
Account receivable	5,750
	<hr/>
Total current assets	<u>480,114</u>
Noncurrent Assets	
Bond issue costs - net	11,773
Land	298,733
Buildings, net of accumulated depreciation	<u>2,756,675</u>
	<hr/>
Total noncurrent assets	<u>3,067,181</u>
Total assets	<u><u>\$3,547,295</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and accrued liabilities	12,821
Current portion of long-term debt	<u>41,017</u>
	<hr/>
Total current liabilities	<u>53,838</u>
Non-current liabilities:	
Notes payable	<u>829,706</u>
	<hr/>
Total non-current liabilities	829,706
Total liabilities	883,544
<b>Net assets</b>	
Invested in capital assets	2,184,685
Restricted for capital improvements	479,066
Unrestricted	<u>-</u>
	<hr/>
Total net assets	<u>2,663,751</u>
Total liabilities and net assets	<u><u>3,547,295</u></u>

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, 2011

	2011
Operating revenues:	\$0
Total operating revenues	0
Operating expenses:	
Legal	1,617
Miscellaneous	4,277
Interest	11,356
Depreciation and amortization	39,216
Total operating expenses	56,466
Operating loss	(56,466)
Non-operating revenues/(expenses):	
Grant Revenue	
Gain on sale of land	
Miscellaneous revenue	
Rental Income	225,000
Interest and investment income	2,936
Administration	
Total non-operating revenues	227,936
Income (loss) before other revenues, expenses, losses and transfers	171,470
Capital Contributions, Special and Extraordinary Items and Transfers	
Transfers from primary government	1,129,192
Capital Contributions	39,580
Total Capital Contributions, Special and Extraordinary Items and Transfers	1,168,772
Change in net assets	1,340,242
Net assets, beginning of year	1,323,509
Net assets, end of year	\$2,663,751

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, 2011**

	2011
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>	
Receipts from customers	\$0
Payment to suppliers	(17,250)
Payments to employees	0
Net cash provided (used) by operating activities	(17,250)
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u></b>	
Rental Proceeds	227,875
Miscellaneous expense	0
Operating transfers in (out)	0
Net cash provided (used) by noncapital financing activities	227,875
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>	
Proceeds from / (paid) debt issuance	738,578
(Acquisition) disposition of capital assets and projects	(2,459,381)
Transfers from primary government	1,203,267
Capital contributions	39,580
Net cash provided (used) by capital and related financing activities	(477,956)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>	
(Increase) decrease in investments	\$328,729
Interest received	2,936
Net cash provided (used) by investing activities	331,665
Net increase (decrease) in cash equivalents	64,334
Cash and cash equivalents, beginning of the year	305,838
Cash and cash equivalents, end of the year	\$370,172
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</u></b>	
Operating income/(loss)	(56,466)
Depreciation and amortization expense	39,216
Net cash provided by (used in) operating activities	(\$17,250)
Cash classified as:	
Restricted	\$370,172

See notes to financial statements

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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.

Receivables

Receivables are a result of rent revenues accrued but not yet received of \$5,750.

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 Town of Stroud, Oklahoma)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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 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**

Investments at June 30, 2011 consisted entirely of certificates of deposit.

The carrying amount of the Authority's investments in certificates of deposit approximate market value.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

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, 2011.

**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 \$38,775 for the year ended June 30, 2011.

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

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Capital assets, not being depreciated:				
Land	298,733	-	-	298,733
Construction-in-progress	82,434	-	(82,434)	-
Total capital assets, not depreciated	381,167	-	(82,434)	298,733
Capital assets, being depreciated:				
Buildings	420,305	2,381,544	-	2,801,849
Total capital assets, being depreciated	420,305	2,381,544	-	2,801,849
Accumulated depreciation				
Buildings	(6,399)	(38,775)	-	(45,174)
Total accumulated depreciation	(6,399)	(38,775)		(45,174)
Capital assets, net	795,073	2,342,769	(82,434)	3,055,408

**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 \$120,500 was received from companies at the Midway while \$104,500 was received as rent for the building at the airport for a total of \$225,000 rent income for the fiscal year.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

**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. To help fund the purchase of the land, the Authority 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 fiscal year end is \$75,000. To fund the cost of the construction, the Authority 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 borrowed \$800,000 from Spiritbank in Stroud, OK. The first principle and interest payment on that loan was made June 2011. The balance at June 30, 2011 was \$795,723. 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 \$1. 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, 2011 are summarized as follows:

\$800,000 promissory note, to Spiritbank , dated September 2010, payable in monthly installments of \$ 6,010 over 20 years including interest at 6.50%.	\$795,723
\$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>\$75,000</u>
	<u>\$870,723</u>

Long-term liabilities transactions for the year ended June 30, 2011, and changes therein were as follows:

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011**

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Spiritbank	-	800,000	-4,277	795,723	21,017
Lincoln County Industrial Authority	90,000	-	(15,000)	75,000	20,000
Stroud National Bank	29,932	-	(29,932)	-	-
<b>Total Long-term Debt</b>	<b>119,932</b>	<b>800,000</b>	<b>(49,209)</b>	<b>870,723</b>	<b>41,017</b>

**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)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>U.S. Department of Housing and Urban Development</u>				
(Passed through the Oklahoma Dept of Commerce/ Town of Stroud, Oklahoma)				
Community Development Block Grant	14.228	14040 CDBG ED 09	1,000,000	925,925
Community Development Block Grant	14.255	14042 SCDBG 09	203,267	203,267
Total U.S. Dept of Housing and Urban Development (Passed through the Oklahoma Dept of Commerce/ Town of Stroud, Oklahoma)			1,203,267	1,129,192

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

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Member AICPA & OSCP

**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, 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, 2011, and related statements of revenues, expenses, and changes in net assets and cash flows for the year then and have issued my report thereon dated December 2, 2011. 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**

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 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 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 of the City of Stroud, Oklahoma, 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.

*Judith K. Ballard, CPA, PC*

Stroud, Oklahoma 74079  
December 2, 2011

**STROUD INDUSTRIAL AUTHORITY  
(a Component Unit of the Town of Stroud, Oklahoma)  
SINGLE AUDIT SUPPLEMENT AND  
INDEPENDENT AUDITOR'S REPORTS  
ON COMPLIANCE AND INTERNAL CONTROL**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2011**

STROUD INDUSTRIAL AUTHORITY  
(a Component Unit of the Town of Stroud, Oklahoma)  
SINGLE AUDIT SUPPLEMENT AND  
INDEPENDENT AUDITOR'S REPORTS  
ON COMPLIANCE AND INTERNAL CONTROL  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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Member AICPA & OSCP

**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, 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, 2011, and related statements of revenues, expenses, and changes in net assets and cash flows for the year then and have issued my report thereon dated December 2, 2011. 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**

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.

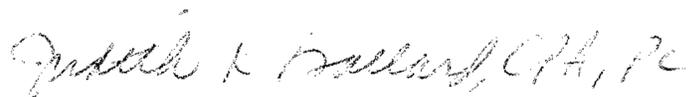
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, 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 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 of the City of Stroud, Oklahoma, 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 2, 2011

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Stroud Industrial Authority  
Stroud, Oklahoma

**Compliance**

I have audited the Stroud Industrial Authority's (a Component Unit of the Town of Stroud, Oklahoma) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Stroud Industrial Authority's (the Authority) major federal programs for the year ended June 30, 2011. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. My responsibility is to express an opinion on the Stroud Industrial Authority's compliance based on my audit.

I conducted my 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Authority's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Authority's compliance with those requirements.

In my opinion, the Stroud Industrial Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control over Compliance**

Management of the Stroud Industrial Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over compliance

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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council of the Town of Stroud, Oklahoma, others within the entity, 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.

*Spencer K. Ballard, CPA, PC*  
Stroud, Oklahoma 74079  
December 2, 2011

**Stroud Industrial Authority**  
**(a Component Unit of the Town of Stroud, Oklahoma)**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2011**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>U.S. Department of Housing and Urban Development</u>				
(Passed through the Oklahoma Dept of Commerce/ Town of Stroud, Oklahoma)				
Community Development Block Grant	14.228	14040 CDBG ED 09	1,000,000	925,925
Community Development Block Grant	14.255	14042 SCDBG 09	203,267	203,267
Total U.S. Dept of Housing and Urban Development (Passed through the Oklahoma Dept of Commerce/ Town of Stroud, Oklahoma)			1,203,267	1,129,192

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

**STROUD INDUSTRIAL AUTHORITY**  
**(a Component Unit of the Town of Stroud, Oklahoma)**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Stroud Industrial Authority (a Component Unit of the Town of Stroud, Oklahoma).
2. There were no conditions disclosed during the audit of the financial statements required to be reported in the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. No instances of non-compliance material to the financial statements were disclosed during the audit.
4. No internal control reportable conditions relating to the audit of the major federal award program are reported.
5. The auditor's report on compliance for the major federal award program expresses an unqualified opinion.
6. The audit disclosed no audit findings related to major programs that are required to be reported.
7. The programs tested as a major program are

Community Development Block Grant	14.228	14040 CDBG ED 09
Community Development Block Grant	14.255	14042 SCDBG 09
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The Stroud Industrial Authority was determined to be a high-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

**Compliance**

None

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

None