



FINANCIAL STATEMENTS

JUNE 30, 2013

Includes Independent Auditor's  
Report Issued By



## Management's Discussion and Analysis

### THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

This section of the Oklahoma Development Finance Authority's (the Authority's) annual financial report presents a discussion and analysis of its financial performance for the year ended June 30, 2013. Please read it in conjunction with the financial statements which follow this section. The following table summarizes the financial position and results of operations of the Authority for 2013 and 2012.

| Assets:                                     | 2013                | 2012                |
|---|---------------------|---------------------|
| Current assets                              | \$ 15,417,874       | \$ 18,651,519       |
| Capital assets                              | 90,702              | 565,143             |
| Other non-current assets                    | 1,191,694           | 1,169,883           |
| Total Assets                                | <u>16,700,270</u>   | <u>20,386,545</u>   |
| <br>Liabilities:                            |                     |                     |
| Current liabilities                         | 54,077              | 5,878,400           |
| Other non-current liabilities               | -                   | -                   |
| Bonds payable                               | 9,999,000           | 9,999,000           |
| Total Liabilities                           | <u>10,053,077</u>   | <u>15,877,400</u>   |
| <br>Net Assets:                             |                     |                     |
| Invested in capital assets                  | 90,702              | 565,143             |
| Unrestricted                                | 6,556,491           | 3,944,002           |
| Total Net Assets                            | <u>\$ 6,647,193</u> | <u>\$ 4,509,145</u> |
| <br>Operating Revenues:                     |                     |                     |
| Fee revenue                                 | \$ 1,073,347        | \$ 989,035          |
| Interest and Investment income              | 169,339             | 154,371             |
| Other                                       | 4,517               | 871,764             |
| Total Operating Revenues                    | <u>1,247,203</u>    | <u>2,015,170</u>    |
| <br>Operating Expenses:                     |                     |                     |
| Interest expense                            | 249,975             | 249,975             |
| Other operating expenses                    | 895,404             | 1,107,817           |
| Total Operating Expenses                    | <u>1,145,379</u>    | <u>1,357,792</u>    |
| <br>Gain on sale of assets                  | <u>2,036,224</u>    | <u>-</u>            |
| <br>Change in net assets                    | 2,138,048           | 657,378             |
| <br>Total net assets, beginning of the year | <u>4,509,145</u>    | <u>3,851,767</u>    |
| <br>Total net assets, end of the year       | <u>\$ 6,647,193</u> | <u>\$ 4,509,145</u> |

## Management's Discussion and Analysis

### THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

#### OVERVIEW OF THE FINANCIAL STATEMENTS

The three financial statements presented within the financial statements are as follows:

- Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date. The Authority's investment balances are considered current assets, as the Authority has historically experienced a high portfolio turnover rate.
- Statement of Revenues, Expenses and Changes in Net Assets – This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses during the operating year. Major sources of operating revenues are administrative fee income and major sources of operating expenses being personnel and interest expense. The change in net assets for an enterprise fund is similar to net profit or loss for any other business enterprise.
- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, financial and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the calendar year.

#### FINANCIAL HIGHLIGHTS

- The Authority's total assets at June 30, 2013 decreased by \$3,686,275, primarily due to an elimination of an intrafund receivable of \$5,875,000. Other changes affecting the change in assets were the increase in cash of approximately \$3,101,000 while investments and fees receivable decreased by approximately \$459,000.
- Total liabilities decreased \$5,824,322 in 2013 primarily due to the elimination of an intrafund payable of \$5,875,000.
- There was a increase in total operating revenues of \$98,660 primarily due to an increase in fee revenue of approximately \$83,000 and in investment income of approximately \$15,000.
- Operating expenses decreased \$212,413, with a decrease in administrative expenses of approximately \$275,000 offsetting a slight increase in other operating expenses.
- Net assets increased by \$2,138,048 in 2013. The gain from the sale of the building of \$2,036,224 along with operating income of \$101,824 accounted for this change.

**Management's Discussion and Analysis**  
**THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**OVERVIEW OF THE FINANCIAL STATEMENTS**

**CAPITAL ASSETS**

During 2013, the Authority sold its office building and is currently constructing a new building several miles from its current location. The building sold for \$2,500,000 and had an original cost of \$663,000 including the land and structure. The Authority also sold a vehicle and purchased a vehicle during the year. The cost of the vehicle purchased was \$31,000.

**DEBT ADMINISTRATION**

The Authority has \$9,999,000 of outstanding debt at June 30, 2013. The bonds are related to the Oklahoma Quality Jobs Investment Program, a designated fund within the Authority.

**CONTACTING THE AUTHORITY'S MANAGEMENT**

This financial report is designed to provide patrons and interested parties with a general overview of the Authority's finances and to demonstrate the Authority's accountability for its finances. If you have questions about this report or need additional financial information, contact:

Oklahoma Development Finance Authority  
5900 N Classen Court  
Oklahoma City, Oklahoma 73118  
Telephone: 405-842-1145



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Oklahoma Development Finance Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Oklahoma Development Finance Authority ("Authority"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013 and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 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 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, 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma Development Finance Authority, as of June 30, 2013, and the respective changes in net position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the Authority's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the Authority's internal control over financial reporting and compliance.

## **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 i-iii 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. 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 audit 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 Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority as a whole. The schedules of net position and schedules of revenues, expenses and change in net position (pages 14-17) are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relate 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 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



October 25, 2013

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2013**

|  | Total Primary<br>Government | Component<br>Unit (Credit<br>Enhancement<br>Reserve Fund) |
|--|-----------------------------|---|
| <b>Assets</b>  |                             |   |
| Current assets:  |                             |   |
| Cash and cash equivalents  | \$ 14,368,392               | \$ 1,180,709  |
| Interest receivable  | 4,795                       | -   |
| Fees receivable and other current assets                                   | 685,747                     | -   |
| Investments  | 358,940                     | -   |
| Total current assets   | <u>15,417,874</u>           | <u>1,180,709</u>  |
| Noncurrent assets:   |                             |   |
| Notes receivable, net of allowance for uncollectible<br>loans of \$762,276 | 1,191,694                   | -   |
| Capital assets, net of accumulated<br>depreciation of \$108,584            | 90,702                      | -   |
| Total noncurrent assets  | <u>1,282,396</u>            | <u>-</u>  |
| Total assets   | <u>16,700,270</u>           | <u>1,180,709</u>  |
| <b>Liabilities</b>   |                             |   |
| Current liabilities  |                             |   |
| Accounts payable   | 54,077                      | -   |
| Total current liabilities  | <u>54,077</u>               | <u>-</u>  |
| Noncurrent Liabilities   |                             |   |
| Bonds payable  | 9,999,000                   | -   |
| Deferred revenue   | -                           | 204,304   |
| Total noncurrent liabilities   | <u>9,999,000</u>            | <u>204,304</u>  |
| Total liabilities  | <u>10,053,077</u>           | <u>204,304</u>  |
| <b>Net Position</b>  |                             |   |
| Invested in capital assets   | 90,702                      | -   |
| Unrestricted   | 6,556,491                   | 976,405   |
| Total net position   | <u>\$ 6,647,193</u>         | <u>\$ 976,405</u>   |

See accompanying notes.

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2013

|  | Total<br>Primary<br>Government | Component Unit<br>(Credit<br>Enhancement<br>Reserve Fund) |
|--|--------------------------------|---|
| Operating revenues:                        |                                |   |
| Fee revenue                                | \$ 1,071,957                   | \$ -  |
| Insurance premiums                         | 1,390                          | 21,410  |
| Interest and investment income             | 169,339                        | 101   |
| Other                                      | 4,517                          | -   |
| Total operating revenues                   | <u>1,247,203</u>               | <u>21,511</u>   |
| Operating expenses:                        |                                |   |
| Personnel services                         | 542,197                        | -   |
| Professional services                      | 208,690                        | -   |
| Administrative                             | 111,883                        | 3,500   |
| Program expenses                           | 2,500                          | -   |
| Depreciation                               | 30,135                         | -   |
| Interest expense                           | 249,975                        | -   |
| Total operating expenses                   | <u>1,145,379</u>               | <u>3,500</u>  |
| Operating income (loss)                    | 101,824                        | 18,011  |
| Income from non-operating activities       |                                |   |
| Gain (loss) on sale of asset               | 2,036,224                      | -   |
| Total income from non-operating activities | <u>2,036,224</u>               | <u>-</u>  |
| Change in net position                     | <u>2,138,048</u>               | <u>18,011</u>   |
| Net position, beginning of year            | <u>4,509,145</u>               | <u>958,394</u>  |
| Net position, end of year                  | <u><u>\$ 6,647,193</u></u>     | <u><u>\$ 976,405</u></u>                                  |

See accompanying notes.



**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2013**

|   | Total Primary<br>Government | Component Unit<br>(Credit<br>Enhancement<br>Reserve Fund) |
|---|-----------------------------|---|
| <b>Cash flows from operating activities:</b>  |                             |   |
| Cash received for fees and insurance premiums   | \$ 851,230                  | \$ 1,600  |
| Cash paid to suppliers and employees  | (814,595)                   | -   |
| Interest and investment income received on investments                                      | 173,856                     | -   |
| Interest paid on debt   | (249,975)                   | -   |
| Net cash provided by operating activities   | <u>(39,484)</u>             | <u>1,600</u>  |
| <b>Cash flows from capital and related financing activities:</b>                            |                             |   |
| Proceeds from the sale of building  | <u>2,480,531</u>            | <u>-</u>  |
| Net cash used in capital and related<br>financing activities                                | <u>2,480,531</u>            | <u>-</u>  |
| <b>Cash flows from investing activities:</b>  |                             |   |
| Investment activities, net  | 681,801                     | -   |
| Payments received on notes receivable   | <u>(21,810)</u>             | <u>-</u>  |
| Net cash used provided by (used in)<br>investing activities                                 | <u>659,991</u>              | <u>-</u>  |
| Net increase in cash and cash equivalents   | 3,101,038                   | 1,600   |
| Cash and cash equivalents, beginning of year  | 11,267,354                  | 1,179,109   |
| Cash and cash equivalents, end of year  | <u><u>\$ 14,368,392</u></u> | <u><u>\$ 1,180,709</u></u>                                |
| <b>Reconciliation of operating income to net cash<br/>provided by operating activities:</b> |                             |   |
| Operating income  | \$ 101,824                  | \$ 18,011   |
| Adjustments to reconcile operating income to net cash<br>provided by operating activities:  |                             |   |
| Depreciation  | 30,134                      | -   |
| Change in assets and liabilities:   |                             |   |
| Fees receivable and other current assets  | 5,652,882                   | -   |
| Interest receivable   | -                           | -   |
| Accounts payable  | <u>(5,824,324)</u>          | <u>(16,411)</u>   |
| Net cash provided by operating activities   | <u><u>\$ (39,484)</u></u>   | <u><u>\$ 1,600</u></u>                                    |

See accompanying notes.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity: The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The Oklahoma Development Finance Authority (the "Authority") is a tax-exempt public trust organized under the laws of the state of Oklahoma (the "State") by Declaration of Trust dated November 1, 1974. The Authority (previously the Oklahoma Development Authority) amended its Declaration of Trust and changed its name to the Oklahoma Development Finance Authority in 1988. The beneficiary of the Authority is the State.

The Authority was established to provide financing for both public and private entities in the State. The Authority obtains funds through the issuance of bonds and notes. Private entities qualifying for Authority financing are generally agricultural, civic, educational, health care, industrial, or manufacturing enterprises. Financing is also provided to governmental agencies and instrumentalities of the State. For public programs, bond and note proceeds are deposited into trust funds to be loaned out to qualifying program participants. Interest for the trust investments and the loans is used to pay interest on the bonds and notes issued by the Authority.

The Authority is a component unit of the State and is combined with other similar funds to comprise the Proprietary Component Units of the State. In evaluating how to define the Authority, for financial reporting purposes, management has determined that there is one entity over which the Authority exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Authority. The Authority exercises significant influence or accountability over the Oklahoma Credit Enhancement Reserve Fund (the "Fund").

Under Oklahoma statutes, the Credit Enhancement Reserve Fund Act (the "Act") created the Fund to be managed, administered, and utilized by the Authority solely to secure the payment of interest, principle, and premium, if any, on the revenue bonds and other financial obligations issued by the Authority for the purpose of enhancing and supporting the credit of such obligations. In addition, the Act authorizes the Fund to issue bonds with are the direct and general obligations of the State (to which the full faith and credit of the State is pledged) in a total principle amount not to exceed \$100,000,000 for the purpose of generating monies to be deposited to the Fund.

The Fund is a discretely presented component unit of the Authority and is reported as an enterprise fund. The Fund does not prepare separately issued financial statements. Collectively, the Authority and the Fund are also referred to the Authority.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Nature of Activities: The Authority administers a broad mix of programs, as noted below, to meet the various economic needs of the State.

Conduit Lending Program: The Conduit Lending Program is completed through the authorization and sale of revenue bonds, notes, certificates of participation, or other evidence of indebtedness. Funds generated by such sale are then available for loans to qualified borrowers. The Authority does not guarantee such obligations.

First-Time Farmer Loan Program: The First-Time Farmer Loan Program is administered in conjunction with the Oklahoma Department of Agriculture and was established during 1994. This program is administered by the Authority using federal and state tax-exempt bond financing to reduce a farmer's interest rate for capital purchases. This program is structured so that a direct loan can be made between a borrower and a lender or between a buyer and a seller.

Small Business Financing Program: The Small Business Financing Program continues its efforts to provide additional funds and financing opportunities to Oklahoma's small business community. The Authority has assisted Rural Enterprises, Inc. ("REI") of Durant, Oklahoma, with the development of their SBA Micro Loan Program by furnishing seed money for the program.

Quality Jobs Investment Program: The Quality Jobs Investment Program ("QJIP") encourages the growth of equity and near equity capital for Oklahoma businesses. Under this program, the Authority can match dollar for dollar an investment enterprise's private capital for helping new and expanding businesses. The Program was created by the Authority and funded through a bond issuance in the amount of \$9,999,000 in 1997 with the proceeds restricted to fund the program.

Tax-Exempt Guaranty Pool: The Tax-Exempt Guaranty Pool ("TEGP") is designed to assist the Oklahoma Industrial Finance Authority (the "OIFA") in issuing tax-exempt bonds. TGEF acts as a private credit enhancement reserve fund to guarantee any loss after all resources of the OIFA have been exhausted. The guarantee is limited to the resources of the TGEF. The program was created by the Authority and funded through a transfer of \$500,000 from the Authority's unrestricted net assets.

The Public Facilities Financing Program: The Public Facilities Financing Program is designed to provide low-cost financing to an applying governmental entity for practically any need of the entity. In order to qualify, the governmental entity's project must contribute to the economic viability or attractiveness of the area impacted by the project, demonstrate strong public support, and the governmental entity must demonstrate the ability to repay borrowed funds.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Fund administers the following program:

Credit Enhancement Reserve Fund ("CERF") Lending Program – The Authority is concentrating on CERF lending activities involving municipal or other governmentally supported obligations, primarily through the Public Facilities Financing Program.

Basis of Accounting: The operations of the Authority and the Fund are accounted for as enterprise funds on an accrual basis in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

Balances classified as operating revenues and expenses are those which comprise the Authority's principal ongoing operations. Since the Authority's operations consist of administering economic development through the issuance of bonds and notes, most revenues and expenses are considered operating.

The Authority applies Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principal Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Use of Estimates: Accounting principles generally accepted in the United States of America require 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 periods. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Authority and the Fund, for purposes of reporting cash flows, consider cash equivalents to include all highly liquid investments with an original maturity of three months, including money market mutual funds.

Fees Receivable and Other Current Assets: The majority of the fees receivable and other current assets consist of fees receivable. Fees receivable include amounts billed for administrative fees as of June 30, 2013. Fees receivable are accrued based on the annual fee as stipulated in the various bond indentures.

Investments: The Authority invests in various SBA Loan Pools. The SBA Loan Pools are recorded at fair value based on the average of two bids from independent brokers. Unrealized gains and losses and interest income are included in investment income.

Capital Assets: Capital assets are stated at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method over an estimated useful life of 39 years for the building and five years for automobiles, furniture, and equipment.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Reserve for Losses: The reserve for losses is an estimate based on management's evaluation of the loan portfolio (those obligations guaranteed by the Fund) giving consideration to general economic conditions, the nature and volume of the loan portfolio, and the historic loan loss experience of the Fund. It is maintained at a level that management considers adequate to absorb potential losses in the loan portfolio.

Deferred Revenue: On certain debt financing which the Fund is guaranteeing, the Fund will receive all of its insurance premiums in advance. These premiums are deferred and recognized as revenue over the life of the various debt obligations on a straight-line basis.

Income Taxes: The Authority, as an integral part of the State, is exempt from federal and state income taxes.

**NOTE B-DEPOSITS AND INVESTMENTS**

*Custodial Credit Risk-Deposits:* Custodial credit risk is the risk that in event of a bank failure, any or all of the government's deposits may be lost. The Authority and Fund's deposits with a bank are invested in money market funds and then swept in to its operating account as needed. The money market funds' assets consist of U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government. Any balances not invested in these money market funds are covered by FDIC insurance or are adequately covered by pledged collateral.

*Interest Rate Risk:* The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Concentration of Credit Risk:* The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority investments consist entirely of funds in SBA Loan Pools.

The Authority's and the Fund's cash and cash equivalents and investments consisted of the following at June 30, 2013:

| <u>Type</u>                                     | <u>Carrying value</u> |                     |
|---|-----------------------|---------------------|
|   | <u>Authority</u>      | <u>Fund</u>         |
| Cash and cash equivalents                       |                       |                     |
| Demand deposits                                 | \$ 433,290            | \$ -                |
| Money market mutual funds                       | 610,102               | 1,180,709           |
| Investment certificate issued by related entity | 13,325,000            | -                   |
|   | <u>\$ 14,368,392</u>  | <u>\$ 1,180,709</u> |
| Investments                                     |                       |                     |
| SBA loan pools                                  | 358,940               | -                   |
|   | <u>\$ 358,940</u>     | <u>\$ -</u>         |

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

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

Deposits: At June 30, 2013, the bank balances of the Authority's and the Fund's cash deposits were \$14,368,392 and \$1,180,709, respectively. Bank balances were covered by Federal Deposit Insurance or were deposited in cash funds indirectly invested in U.S. Treasury securities and backed by the full faith and credit of the U.S. Government.

Investments: The Authority's investments in SBA Loan Pools of \$358,940 are not evidenced by securities; therefore, these investments are not subject to risk categorization.

| <u>Investment type</u>   | <u>Fair Value</u> | <u>Investment Maturities (in Years)</u> |                    |                   |                      |
|--------------------------|-------------------|---|--------------------|-------------------|----------------------|
|                          |                   | <u>Less than one</u>                    | <u>One to Five</u> | <u>Six to Ten</u> | <u>More than Ten</u> |
| Authority SBA Loan Pools | \$ 358,940        |   | 43,437             | 130,273           | 185,230              |
|                          | <u>\$ 358,940</u> | <u>\$ -</u>                             | <u>\$ 43,437</u>   | <u>\$ 130,273</u> | <u>\$ 185,230</u>    |

**NOTE C-NOTES RECEIVABLE**

At June 30, 2013, the Authority's Quality Job Investment Program has various notes receivable from four entities, net of allowance, totaling \$1,191,694. The notes bear interest at variable interest rates ranging from the national prime rate to national prime plus 300 basis points. Interest is compounded monthly, quarterly or annually, as defined in each note agreement. The notes mature January 2009 to October 2014 and are unsecured.

**NOTE D-CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2013, was as follows:

|                          | <u>July 1, 2012</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2013</u> |
|--------------------------|---------------------|------------------|-------------------|----------------------|
| Land                     | \$ 100,000          | -                | 100,000           | \$ -                 |
| Buildings                | 563,185             | -                | 563,185           | -                    |
| Automobiles              | 109,549             | 31,000           | 36,533            | 104,016              |
| Furniture and equipment  | 89,612              | 5,658            |                   | 95,270               |
|                          | <u>862,346</u>      | <u>36,658</u>    | <u>699,718</u>    | <u>199,286</u>       |
| Accumulated depreciation | <u>(297,203)</u>    | <u>32,540</u>    | <u>221,159</u>    | <u>(108,584)</u>     |
|                          | <u>\$ 565,143</u>   | <u>\$ 69,198</u> | <u>\$ 920,877</u> | <u>\$ 90,702</u>     |

Depreciation is calculated using the straight-line method over estimated useful lives as follows: Automobiles-5 years; Furniture and equipment-5 years.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE E-NONRECOURSE DEBT, NOTES RECEIVABLE AND FUNDS IN TRUST (CONDUIT DEBT)**

Certain financing agreements are structured such that the debt is to be repaid solely from the revenues derived from the related facilities leased or acquired with proceeds of the debt obligations, or from the disposition of collateral. The Authority does not hold these notes receivable or trust investments in amounts equal to the loan-term financings.

The financings are not the general obligations of the Authority, and it is the opinion of the Authority's management and its legal counsel that, in the event of default by the borrower(s), the Authority has no responsibility for repayment of such financings.

Accordingly, the nonrecourse debt and the related notes receivable and trust investments have been excluded from the financial statements.

**NOTE F-THE OKLAHOMA CREDIT ENHANCEMENT RESERVE FUND**

Under the constitution of the State, the Fund may issue bonds of the State, to be known as the Oklahoma Credit Enhancement Reserve General Obligation Bonds, in a total principal amount of \$100,000,000 for the sole purpose of generating monies to be deposited to the Fund if there are insufficient assets to meet insurance obligations. The Fund is managed, administered, and utilized by the Authority solely to secure the payment of principal and interest on revenue bonds and other financial obligations issued by the Authority for the specific purpose of enhancing and supporting the credit of such obligations.

As of June 30, 2013, there were approximately \$46 million of outstanding financial obligations insured by the Fund. The Authority has accrued a reserve for losses of approximately \$762,276 as of June 30, 2013, to cover potential losses from the outstanding financial obligations insured by the Fund. Through June 30, 2013, Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds have not been issued since it is the intention of the Authority to utilize existing assets to meet obligations arising from losses reserved by the Fund.

**NOTE G-TAX-EXEMPT GUARANTY POOL**

In August 1995, the Authority's Board of Directors created the Pool to assist the OIFA in obtaining tax-exempt financing on OIFA projects. The Pool was funded in fiscal year 1998 with \$500,000 of unrestricted monies held by the Authority. The Pool sets up a private credit enhancement reserve fund to guarantee a portion of any loss up to the amount in the Pool after all other resources to collect by the OIFA have been exhausted. At no time will the liability of the Pool be greater than the \$500,000 funding plus any premiums retained by the Pool.

At June 30, 2013, there were approximately \$3.5 million of outstanding financial obligations insured by the Pool. All obligations are making payments in a timely manner.

**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE H-RELATED PARTIES**

The Authority has a month-to-month agreement whereby OIFA provides staff support and administrative services and the Authority reimburses OIFA for its proportionate share of OIFA employees' salaries, benefits, taxes, and other costs. The Authority paid OIFA approximately \$542,197 during the year ended June 30, 2013 for these services. Beginning January 1, 2012, the President of the Authority retired as a state employee working under OIFA's umbrella. At that time he became an employee of the Authority, and OIFA began reimbursing the Authority \$4,000 per month for services he provides to OIFA.

The Authority's assets include an investment certificate issued by OIFA. The certificate was issued July 1, 2012 and expires June 30, 2022. The certificate enables the Authority to invest up to \$15 million with OIFA, which in turn deposits the funds with the Oklahoma State Treasurer under its OK Invest Program. The Authority has advanced \$13,325,000 toward this certificate at June 30, 2013. The certificate calls for the Authority to be paid interest earnings monthly at the rate of 1% below the OK Invest's rate of return for the month. Under the terms of the certificate, the Authority can request that OIFA return its principal amount within three days, therefore these funds have been included in cash and cash equivalents in the Authority's statement of net position. The certificate can also be terminated by either party upon three days notice, at which time all principal and accrued interest will be paid to the Authority.

**NOTE I-LEASE AGREEMENTS**

The Authority leased a portion of its office space to the OIFA and the State Bond Advisor. Rental income from leases for the year ended June 30, 2013, was approximately \$37,000.

**NOTE J-BONDS PAYABLE**

The Authority has issued revenue bonds to fund loans to various investment enterprises in connection with the Quality Jobs Investment Program.

Revenue bonds outstanding at June 30, 2013, are as follows:

|  |                    |
|--|--------------------|
| Oklahoma Development Finance Authority Oklahoma Quality<br>Jobs Investment Program Revenue Bond, Series 1996, due April 1,<br>2031 | <u>\$9,999,000</u> |
|--|--------------------|

The registered owner of the bonds is the OIFA, a related party. There were no additions or retirements of revenue bonds during the year ended June 30, 2013. The original maturity date of the bond was April 1, 2006. However, on April 1, 2006 the Authority and OIFA signed an agreement to extend the maturity date to April 1, 2031.

Interest rates are variable with payments due quarterly with principal and all unpaid interest due at maturity. The variable rate of interest is equal to the OIFA's cost of funds on its outstanding variable rate bond issues. The interest rate at June 30, 2013 was 2.5%.



**OKLAHOMA DEVELOPMENT FINANCE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE J-BONDS PAYABLE (Continued)**

The bonds are payable solely from and secured by (1) revenues derived by the Quality Job Investment Program from loan repayments, (2) funds in the Quality job Investment Program fund established by the Authority to support this bond and (3) a Credit Enhancement Reserve Fund guarantee insurance policy issued to the Oklahoma Industrial Finance Authority.

Neither the State nor any political subdivision is obligated to pay principal or interest on the bonds. The Authority does not have any taxing authority.

The annual debt service requirements to pay principal and interest on Quality Jobs Investment Program Revenue Bond, Series 1996, are as follows:

| <u>June 30,</u> | <u>Principal</u>    | <u>Interest</u>     |
|-----------------|---------------------|---------------------|
| 2014            | -                   | 249,975             |
| 2015            | -                   | 249,975             |
| 2016            | -                   | 249,975             |
| 2017            | -                   | 249,975             |
| 2018            | -                   | 249,975             |
| 2019-2023       | -                   | 1,249,875           |
| 2024-2028       | -                   | 1,249,875           |
| 2029-2031       | 9,999,000           | 562,443             |
| Total           | <u>\$ 9,999,000</u> | <u>\$ 4,312,068</u> |

Interest requirements for the variable rate debt were determined by using the rate in effect at June 30, 2013.

**NOTE K-BUILDING OCCUPANCY ARRANGEMENTS**

The Authority sold its office building in August, 2012. As part of its agreement to purchase, the buyer granted the Authority (as seller) the right to occupy the offices for two years, rent-free so that the Authority will have time to construct new office space.

## OTHER SUPPLEMENTARY INFORMATION

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
SCHEDULE OF NET POSITION-TAX EXEMPT GUARANTY POOL  
JUNE 30, 2013

**Assets:**

|                           |    |                |
|---------------------------|----|----------------|
| Cash and cash equivalents | \$ | 700,077        |
| Investments               |    | 23,825         |
| Total assets              |    | <u>723,902</u> |

**Liabilities**

|                  |  |   |
|------------------|--|---|
| Accounts payable |  | - |
|------------------|--|---|

**Net Position**

|    |                |
|----|----------------|
| \$ | <u>723,902</u> |
|----|----------------|

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-  
TAX EXEMPT GUARANTY POOL  
YEAR ENDED JUNE 30, 2013

|                                 |                          |
|---------------------------------|--------------------------|
| Operating revenues:             |                          |
| Fee revenue                     | \$ 1,390                 |
| Investment income               | 7,448                    |
| Total operating revenues        | <u>8,837</u>             |
| Operating expenses:             |                          |
| Guaranty obligation             | 14,988                   |
| Interfund transfer              | <u>-</u>                 |
| Total operating expenses        | <u>14,988</u>            |
| Change in net position          | (6,151)                  |
| Net position, beginning of year | <u>730,053</u>           |
| Net position, end of year       | <u><u>\$ 723,902</u></u> |

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
SCHEDULE OF NET POSITION-QUALITY JOBS INVESTMENT PROGRAM  
JUNE 30, 2013

**Assets:**

|                           |                  |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 5,950,513     |
| Interest receivable       | 4,792            |
| Notes receivable          | 1,191,694        |
| Investments               | 358,940          |
|                           | <u>7,505,939</u> |

**Liabilities:**

|                  |                   |
|------------------|-------------------|
| Accounts payable | 50,000            |
| Bonds payable    | 9,999,000         |
|                  | <u>10,049,000</u> |

|                            |                              |
|----------------------------|------------------------------|
| Deficiency in Net Position | <u><u>\$ (2,543,061)</u></u> |
|----------------------------|------------------------------|

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
QUALITY JOBS INVESTMENT PROGRAM  
YEAR ENDED JUNE 30, 2013

|   |                              |
|---|------------------------------|
| Operating revenues:                           |                              |
| Investment income                             | \$ 89,992                    |
| Total operating revenues                      | <u>89,992</u>                |
| Operating expenses                            |                              |
| Interest expense                              | 249,975                      |
| Management expense                            | 6,000                        |
| Other   | <u>3,682</u>                 |
| Total operating expenses                      | <u>259,657</u>               |
| Change in net position                        | .                            |
|   | (169,665)                    |
| Deficiency in net position, beginning of year | <u>(2,373,396)</u>           |
| Deficiency in net position, end of year       | <u><u>\$ (2,543,061)</u></u> |



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

To the Board of Trustees  
Oklahoma Development Finance Authority

We have audited, 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, the financial statements of the Oklahoma Development Finance Authority ("Authority") as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Oklahoma Development Finance 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 opinion 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 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 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 Oklahoma Development Finance 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 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 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.

*HBC CPAs & Advisors*

October 25, 2013