

Tulsa County Home Finance Authority

Financial Statements
And
Independent Auditor's Report

**For the Years Ended
December 31, 2013 and 2012**

Contents

	Page
Independent Auditor's Report.....	3 - 4
Financial Statements	
Statements of Net Position.....	5
Statements of Revenues, Expenses and Changes in Net Position.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 13
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14 - 15



Independent Auditor's Report

The Governing Body
Tulsa County Home Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statement of the business-type activities of Tulsa County Home Finance Authority as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 opinions.

Opinions

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Tulsa County Home Finance Authority as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2014 on our consideration of Tulsa County Home Finance 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 Tulsa County Home Finance Authority's internal control over financial reporting and compliance.

Tulsa, Oklahoma
July 30, 2014

Stanfield & O'Sell P.C.

Tulsa County Home Finance Authority

Statements of Net Position

December 31,

	<u>2013</u>	<u>2012</u>
Assets		
Current assets:		
Cash and cash equivalents (notes A and B)	\$ 3,672,356	\$ 3,100,039
Accounts receivable	-	196,980
Total assets	<u>\$ 3,672,356</u>	<u>\$ 3,297,019</u>
Liabilities and Net Position		
Current liabilities:		
Total current liabilities	<u>\$ -</u>	<u>\$ -</u>
Net position:		
Unrestricted	<u>3,672,356</u>	<u>3,297,019</u>
Total liabilities and net position	<u>\$ 3,672,356</u>	<u>\$ 3,297,019</u>

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

Tulsa County Home Finance Authority

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31,

	2013	2012
Operating revenues:		
Issuer and authority fees	\$ 48,716	\$ 64,713
Dividend and interest income	3,257	230
Other income	3,322	-
Total operating revenues	<u>55,295</u>	<u>64,943</u>
Operating expenses:		
Professional fees, legal and accounting	19,500	40,000
Other professional fees, lobbyist	-	6,000
Total operating expenses	<u>19,500</u>	<u>46,000</u>
Operating income, before non-operating income and expenses	35,795	18,943
Non-operating income and expenses:		
Proceeds from settlement	-	227,618
Proceeds from conduit debt funds (note E)	339,542	93,162
Change in net position	375,337	339,723
Net position, beginning of year	<u>3,297,019</u>	<u>2,957,296</u>
Net position, end of year	<u>\$ 3,672,356</u>	<u>\$ 3,297,019</u>

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

Tulsa County Home Finance Authority

Statements of Cash Flows

Years Ended December 31,

	2013	2012
Cash flows from operating activities:		
Cash received from sources	\$ 588,560	\$ 188,513
Cash paid to suppliers and conduit debt financing	(19,500)	(46,000)
Interest and dividend income	3,257	230
	<hr/>	<hr/>
Net cash provided by operating activities	.572,317	142,743
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	3,100,039	2,957,296
	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 3,672,356</u>	<u>\$ 3,100,039</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 375,337	\$ 339,723
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	196,980	(196,980)
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 572,317</u>	<u>\$ 142,743</u>

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

Notes to Financial Statements

December 31, 2013 and 2012

Note A – Summary of Significant Accounting Policies

1. Origins of the Authority

The Tulsa County Home Finance Authority (the “Authority”) is a public trust created under the laws of the State of Oklahoma. The Authority is operated for public purposes which functions by the terms of a trust indenture dated October 16, 1978.

The Authority was created for the primary purpose of providing mortgage funds for residential loans to qualified homebuyers and for certain multi-family housing projects in the County of Tulsa, Oklahoma. The Authority achieves its purpose through the issuance of revenue bonds. The bonds are not general obligations of the County of Tulsa, State of Oklahoma Tulsa County Home Finance Authority, or any other political corporation, subdivision or agency thereof, but are special and limited conduit debt obligations payable by the Authority solely and only from payments received from the mortgage loans services by the lenders, the specific revenues, funds and assets pledged by the Authority, and the revenues and funds derived from GNMA/FNMA securities, of the respective bond issue(s).

The net proceeds of the bond issues are invested in the following:

GNMA/FNMA certificates whereby various third parties make loans to borrowers, pool the loans, exchange the loan pools for participation certificates issued by GNMA/FNMA and sell the GNMA/FNMA certificates to the Authority.

The ultimate beneficiary of the Authority is the County of Tulsa, Oklahoma, which is entitled solely to the benefits of the Authority as administered by the Trustees, and at the termination of the Authority, shall receive the residue of the trust estate.

2. Financial Reporting Entity

The Authority complies with GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statements 34, 39 and 61. These Statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

In reviewing the operating environment of the Authority, it was determined that Tulsa County does not approve the Authority’s budget, is not liable for any operating deficits, does not provide any funding to the Authority, and is not legally responsible for the Authority’s debt obligations. Tulsa County is the beneficiary of the Authority. However, it does not have the ability to access the economic resources received or held by the Authority without the Authority’s approval. Because of these findings, the Tulsa County Home Finance Authority is not considered a component unit of Tulsa County for financial reporting purposes.

Notes to Financial Statements

December 31, 2013 and 2012

Note A – Summary of Significant Accounting Policies - Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements provide information about the Authority's business-type activities. These financial statements are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe *which* transactions and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting" refers to *when* transactions or events are recorded regardless of the measurement focus applied.

Because of the "businesslike" characteristics of our operations, the accompanying financial statements report using the *economic resources measurement focus* and the *accrual basis of accounting*. The accounting objectives of the "economic resources" measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

The Authority utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board of Trustees has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial statements, to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting for and reporting on its operations, subject to the same limitations.

The enterprise fund used by the Authority distinguishes operation *revenues* from *non-operating* items. Operating revenues and expenses generally result from investing and bond issue services in connection with the Authority's ongoing operations. The principal operating revenues are charges to bond issuer fees and the investment income from those fees. Operating expenses include the cost of bond issues and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, the unrestricted resources as they are needed. The Authority had no restricted resources at December 31, 2013 and 2012.

Notes to Financial Statements

December 31, 2013 and 2012

Note A – Summary of Significant Accounting Policies - Continued

4. Cash and Cash Equivalents and Investments

For purposes of the statements of net position and statements of cash flows, the Authority considers all U.S. Treasury money market accounts to be cash equivalents. Cash and cash equivalents consist of highly liquid depository accounts, with initial maturities of three months or less when purchased. For purposes of financial statement disclosures, they are considered to be investments.

5. Accounts Receivable

Accounts receivable consists of amounts collected after year-end that relate to activity during the year. All amounts are considered fully collectible.

6. Property and Equipment

The Authority did not own any property and equipment at December 31, 2013 and 2012. The Authority's capitalization policy is to capitalize individual fixed assets with an acquisition cost of \$500 or greater.

7. Income Tax

The Authority, by statute, is exempt from Federal and State income taxes.

8. Use of Estimates

The preparation of the basic 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 amounts could differ from those estimates.

9. Advertising Costs

The Authority policy is to expense all advertising costs in the period in which they are incurred. For the years ended December 31, 2013 and 2012, the Authority did not incur any advertising expenses.

Note B – Bank Deposits of Cash Investments

Bond indenture agreements and the Authority's trust instrument govern the investment policies of the Authority. Allowable investments include money market fund accounts and other direct obligations of the U.S. government and its agencies whose debt instruments are guaranteed by the U.S. government. The Authority's deposits of cash are invested in short term U.S. Treasury money market accounts which are reported at market value. While the Authority has a large amount of investments that are considered uninsured deposits, these funds are invested in a U.S. Treasury security money market fund, the underlying investments of which are backed by the full faith and credit of the U.S. government.

Notes to Financial Statements

December 31, 2013 and 2012

Note B – Bank Deposits of Cash Investments - Continued

1. Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counter party, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. As of December 31, 2013, no investments were exposed to custodial credit risk.

2. Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. As mentioned previously, the Authority's investment policies are dictated by their trust instrument. As such, the Authority only invests in U.S. Treasury money market accounts whose underlying securities are backed by the full faith and credit of the U.S. government. The Authority believes that they have mitigated credit risk to the highest degree possible.

3. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority holds excess cash in a U.S. Treasury money market mutual fund that consists of short-term U.S. Treasury obligations, so changes in interest rates do not have a material impact on the value of the account.

4. Concentration of Credit Risk

Concentration of credit risk is required to be disclosed by GASB Statement 40. GASB Statement 40 requires disclosure when the percent is 5 percent or more in any one issuer. External investment pools and obligations of the U.S. government are exempt from concentration risk disclosures.

5. Investments

The Authority's investment policy and Oklahoma State Statutes restricts investments to direct obligations of the United States government and money market mutual funds with portfolios of securities guaranteed by the U.S. government.

Note C – Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Notes to Financial Statements

December 31, 2013 and 2012

Note C – Conduit Debt Obligations - Continued

The bonds issued by the Authority are conduit debt and are not the legal obligation of the Authority, County, State nor any political subdivision and are payable solely from the pledged revenues. Accordingly, the Authority has elected to exclude both the conduit debt as a liability and the related assets from their statements of net position. The net proceeds of the various conduit debt obligation bond issues were used to provide financing for qualifying residences through the purchase of mortgage-backed certificates or eligible residential mortgage loans, or to provide interim and permanent financing for multi-family construction projects, and to establish debt service reserves as required by the various trust indentures.

The bond indentures provide that principal and interest are collateralized by pledges of all loans acquired, all revenues and collections with respect to such loans, all funds established by the indentures and by such other guarantees including bond insurance for a portion of the outstanding principal balance as may be required under each specific indenture.

The Bank of New York Mellon Trust Co. is trustee for the following series of mortgage revenue bond issues/conduit debt obligations: 1994 Series A.

Bank of Oklahoma is the trustee for the following series of mortgage revenue bond issues/conduit debt obligations: 2001 Series Refunding (Waterford), 2003 Series B, and 2006 Series C.

The 2001 Series Refunding (Waterford) is a multi-family project series of revenue bonds. All other bond series are for the purpose of providing financing for single family residences. Any excess amounts remaining in any fund or account after full payment of the bond liability, fees, trustee expenses and other charges, shall be paid to the Authority for single family bonds and paid to the project owner for multi-family bonds.

At December 31, 2013, conduit debt consists of the following:

Single Family Mortgage Revenue Bonds:

1994-Series A, due 2023, interest at 6.67%	\$ 103,630
2003-Series B, due 2036, interest at variable rates	6,504,548
2006-Series C, due 2038, interest at 5.25%	<u>10,130,625</u>

Total single family mortgage revenue bonds	<u>16,738,803</u>
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Multi-family Mortgage Revenue Bonds:

Waterford Apartments-2001 Refunding Series, due 2031, interest at variable rates	<u>10,490,000</u>
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Total Conduit Debt Obligations	<u><u>\$ 27,228,803</u></u>
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Notes to Financial Statements

December 31, 2013 and 2012

Note C – Conduit Debt Obligations - Continued

The proceeds from conduit debt funds of \$339,542 for the year ended December 31, 2013 were related to the redemption of the 2002 Series B conduit debt obligation. The proceeds from conduit debt funds of \$93,162 for the year ended December 31, 2012 were related to the redemption of the 1988 Series A Bond conduit debt obligation. The effect of these transactions was an increase in the balance of the Authority's cash and cash equivalents on the statement of net assets in each of the respective years.

Note D – Contracts for Service

The Authority has entered into "origination and servicing agreements" with various banks, savings and loan associations, mortgage companies and similar financial institutions to originate and service the mortgage loans being funded by the Authority from the various conduit debt obligation bond issues. The agreements provide that the loans must meet certain criteria relating to maximum loan amount, interest rates, income requirements and insurance requirements.

Note E – Proceeds from Settlements

In 2012, the Authority was the beneficiary of the GE Funding Capital Market Services, Inc. (GEFCMS) settlement which was initiated by various state Attorneys General. The settlement related to certain financial transactions between GEFCMS and various public agencies, including the Authority, entered into from 2000 to 2004.

Note F – Adoption of Accounting Standards

The Authority has adopted all Government Accounting Standards Board (GASB) opinions through GASB Statement No. 65. The adoption of these standards did not have a significant impact on the statements of the Authority. GASB statements issued after Statement No. 65 are not yet effective. Management does not believe these statements will have any effect on the Authority's financial statements.

Note G – Subsequent Events and Date of Management's Review

Subsequent events were evaluated through July 30, 2014, which is the date that the financial statements were available to be issued.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Body
Tulsa County Home 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 business-type activities of Tulsa County Home Finance Authority as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Tulsa County Home Finance Authority's basic financial statements, and have issued our report thereon dated July 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tulsa County Home 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tulsa County Home Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Tulsa County Home Finance 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 over financial reporting 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 Tulsa County Home Finance Authority's financial statements are free from material misstatement, we 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 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.

Tulsa, Oklahoma
July 30, 2014

Stanfield & O'Sell P.C.