

# **Oklahoma Industrial Finance Authority**

## *Financial Statements*

June 30, 2015 and 2014  
(With Independent Auditors' Report Thereon)



**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**FINANCIAL STATEMENTS**

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Oklahoma Industrial Finance Authority

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

We have audited the accompanying financial statements of the Oklahoma Industrial Finance Authority (the "Authority"), which is a part of the State of Oklahoma financial reporting entity, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 auditors' 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 auditors consider internal control relevant to the Authority'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 Authority'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.

(Continued)

## **INDEPENDENT AUDITORS' REPORT, CONTINUED**

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

### **Emphasis of Matter**

#### *Component-Unit-Only Financial Statements*

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State of Oklahoma that is attributable to the balances and transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

#### *Adoption of New Accounting Pronouncements*

As discussed in Notes 1 and 2 to the financial statements, in 2015 the Authority adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). The implementation of GASB 68 and GASB 71 resulted in a cumulative adjustment to restate the beginning net position of the Authority as of July 1, 2014. Our opinion is not modified with respect to this matter.

### **Other Matters**

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 and I-2 and the Schedule of the Authority's Proportionate Share of Net Pension Liability and the Schedule of the Authority's Contributions on pages 33 and 34 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, 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 audits 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.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, 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.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
October 22, 2015

## **OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Our discussion and analysis of the financial performance of the Oklahoma Industrial Finance Authority (the "Authority"), which is a part of the State of Oklahoma financial reporting entity, provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the Authority's financial statements, which begin on page 3.

#### **Financial Highlights**

- Total operating revenues decreased by approximately \$100,000 (6.3% decrease) to \$1.5 million during 2015 compared to \$1.6 million in 2014, consisting primarily of a decrease in earnings from notes receivable and a decrease in earnings from investments. Total operating expenses decreased approximately \$200,000 (11.8% decrease) to \$1.5 million in 2015 compared to \$1.7 million in 2014 caused by a reduction in pension related cost and interest expense. Non-operating expenses decreased by approximately \$3,000 during 2015, resulting from a decrease in unrealized gains on investments since 2014.
- Total operating revenues decreased by approximately \$200,000 (11.1% decrease) to \$1.6 million during 2014 compared to \$1.8 million in 2013, consisting primarily of a decrease in earnings from notes receivable offset by an increase in earnings from investments. Total operating expenses decreased approximately \$100,000 (5.6% decrease) to \$1.7 million in 2014 compared to \$1.8 million in 2013. Non-operating expenses decreased by approximately \$26,000 during 2014, resulting from a decrease in unrealized gains on investments since 2013.
- Total assets and deferred outflows of resources decreased approximately \$500,000 from \$61.1 million as of June 30, 2014, to \$60.6 million as of June 30, 2015 (0.8% decrease). Total liabilities decreased approximately \$500,000, from \$57.9 million as of June 30, 2014, to \$57.4 million as of June 30, 2015 (0.9% decrease). The decrease in both total assets and total liabilities is due to the investment certificate agreement with the Oklahoma Development Finance Authority (ODFA) and the repayment of general obligation bonds. Deferred inflows of resources increased approximately \$200,000 as a result of adopting GASB 68 in 2015.
- Total assets and deferred outflows of resources decreased approximately \$2 million from \$63.2 million as of June 30, 2013, to \$61.1 million as of June 30, 2014 (3.2% decrease). Total liabilities decreased approximately \$2 million, from \$59.9 million as of June 30, 2013, to \$57.9 million as of June 30, 2014 (3.3% decrease). The decrease in both total assets and total liabilities are due to the investment certificate agreement with the ODFA and the repayment of general obligation bonds.
- Restricted assets increased from approximately \$13,100 as of June 30, 2014, to approximately \$13,900 as of June 30, 2015, an increase of approximately \$800 (6.1% increase).
- Restricted assets increased from approximately \$11,900 as of June 30, 2013, to approximately \$13,100 as of June 30, 2014, an increase of approximately \$1,200 (10.1% increase).

## OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

#### Financial Highlights, Continued

- The balance of outstanding loans, net of the allowance for doubtful accounts, decreased \$3.4 million during 2015. The decrease is a result of one loan being refinanced during the year in the amount of \$1 million, with an offset of loan balances being paid off and paid down in 2015. At June 30, 2015, there were six loans outstanding with a balance of \$3.6 million compared to eight loans outstanding at June 30, 2014, with a balance of \$7.0 million. The Authority closed no new loans and refinanced one loan providing for additional funds under the note during 2015. At June 30, 2015, the Authority had loan commitments of \$5 million.
- The balance of outstanding loans, net of the allowance for doubtful accounts, increased \$200,000 during 2014. The increase is a result of a new loan being issued and refinancing a loan in 2014 with an offset of loan balances being paid off and paid down. At June 30, 2014, there were eight loans outstanding with a balance of \$7.0 million compared to nine loans outstanding at June 30, 2013, with a balance of \$6.8 million. The Authority closed one new loan and refinanced one loan providing for additional funds under the note during 2014. At June 30, 2014, the Authority had no loan commitments.
- The balance of investments decreased approximately \$400,000 from \$17.5 million as of June 30, 2014 to \$17.1 million as of June 30, 2015 (2.3% decrease). The decrease is primarily due to the paydown of investment notes with the ODFA.
- The balance of investments decreased approximately \$2.4 million from \$19.9 million as of June 30, 2013, to \$17.5 million as of June 30, 2014 (12.1% decrease). The decrease is due to primarily selling SBA investments earning low yields.
- The balance of the outstanding general obligation bonds was \$44.9 million as of June 30, 2015, and \$45.6 million as of June 30, 2014; a decrease of \$700,000, which represents the scheduled bond principal payments.
- The balance of the outstanding general obligation bonds was \$45.6 million as of June 30, 2014, and \$46.2 million as of June 30, 2013; a decrease of \$600,000, which represents the scheduled bond principal payments.

#### Economic Factors and Next Year's Outlook

Management is of the opinion that the loan level and the purchase of loans guaranteed by the Oklahoma Credit Enhancement Reserve Fund will remain low to moderate. No changes in the Authority's financial strategies are anticipated for the next year.

#### Contacting the Authority's Financial Management

This financial report is designed to provide the Board of Directors' accountability of the Authority. If you have questions about this report or need additional financial information, contact the Oklahoma Industrial Finance Authority, 9220 North Kelley Ave., Oklahoma City, OK 73131.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 39,615,028	36,240,798
Notes receivable	371,958	729,237
Miscellaneous accounts receivable	317	175
Accrued interest:		
Notes receivable	12,961	38,830
Investments	144,182	145,975
Total current assets	<u>40,144,446</u>	<u>37,155,015</u>
Noncurrent assets:		
Restricted cash and cash equivalents	13,872	13,082
Investments, at fair value	17,062,973	17,469,533
Notes receivable, net of allowance for doubtful accounts of \$77,730 at both June 30, 2015 and 2014	3,153,746	6,240,405
Leased property, net of accumulated depreciation of \$60,375 and \$57,750 at June 30, 2015 and 2014, respectively	119,625	122,250
Total noncurrent assets	<u>20,350,216</u>	<u>23,845,270</u>
Total assets	<u>60,494,662</u>	<u>61,000,285</u>
<b>Deferred outflows of resources</b>		
Debt refundings, net	76,245	93,132
Deferred amounts related to the pension	73,322	-
Total deferred outflows of resources	<u>149,567</u>	<u>93,132</u>
Total assets and deferred outflows of resources	<u>60,644,229</u>	<u>61,093,417</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**STATEMENTS OF NET POSITION, CONTINUED**

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	541	483
Accrued compensated absences	48,322	45,079
General obligation bonds	720,000	690,000
Investment certificates payable to the ODFA	12,144,736	11,944,736
Accrued interest payable	<u>263,520</u>	<u>258,135</u>
Total current liabilities	<u>13,177,119</u>	<u>12,938,433</u>
Noncurrent liabilities:		
General obligation bonds	44,165,000	44,885,000
Unamortized bond premium/discount, net	24,783	29,580
Net pension liability	<u>46,751</u>	<u>-</u>
Total noncurrent liabilities	<u>44,236,534</u>	<u>44,914,580</u>
 Total liabilities	 <u>57,413,653</u>	 <u>57,853,013</u>
<b>Deferred Inflows of Resources</b>		
Deferred amounts related to the pension	<u>171,718</u>	<u>-</u>
 Total liabilities and deferred inflows of resources	 <u>57,585,371</u>	 <u>57,853,013</u>
<b>Net Position</b>		
Restricted	13,872	13,082
Unrestricted	<u>3,044,986</u>	<u>3,227,322</u>
 Total net position	 <u>\$ 3,058,858</u>	 <u>3,240,404</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

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

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i>
Operating revenues:		
Interest income:		
Notes receivable	\$ 302,825	349,008
Investments	1,189,585	1,225,328
Other	26,400	30,900
Total operating revenues	<u>1,518,810</u>	<u>1,605,236</u>
Operating expenses:		
Administrative	127,839	250,602
Bond interest	1,259,824	1,313,056
Investment certificate interest	65,809	98,599
Depreciation	2,625	2,625
Total operating expenses	<u>1,456,097</u>	<u>1,664,882</u>
Operating income (loss)	<u>62,713</u>	<u>(59,646)</u>
Non-operating (expenses) revenues:		
Unrealized losses on investments	(31,650)	(40,886)
Gains from redemptions/sales of investments	-	6,173
Total non-operating expenses	<u>(31,650)</u>	<u>(34,713)</u>
Change in net position	31,063	(94,359)
Net position, beginning of year	3,240,404	3,334,763
Cumulative adjustment in net position to adopt GASB 68 and GASB 71 (see Note 2)	<u>(212,609)</u>	<u>-</u>
Net position, beginning of year, restated	<u>3,027,795</u>	<u>3,334,763</u>
Net position, end of year	<u>\$ 3,058,858</u>	<u>3,240,404</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## STATEMENTS OF CASH FLOWS

### Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i>
<b>Cash flows from operating activities:</b>		
Collections of interest on notes receivable	\$ 328,694	339,636
Collections of fees on notes receivable	-	4,625
Collections of interest on investments	1,191,378	1,232,565
Collections of rent from real estate property	26,400	26,400
Payments of salaries and benefits	(162,141)	(215,211)
Payments of administrative expenses	(30,001)	(34,510)
Payments of interest	(1,308,158)	(1,390,392)
Net cash provided by (used in) operating activities	<u>46,172</u>	<u>(36,887)</u>
<b>Cash flows from noncapital and related financing activities:</b>		
Bond principal payments	(690,000)	(655,000)
Receipts of investment certificate payable to the ODFA	200,000	119,736
Payments on investment certificate payable to the ODFA	-	(1,500,000)
Net cash used in noncapital and related financing activities	<u>(490,000)</u>	<u>(2,035,264)</u>
<b>Cash flows from investing activities:</b>		
Collections of principal on loans	4,443,938	1,344,916
Loans made	(1,000,000)	(1,529,456)
Principal payments received from sale, maturity, or redemption of investments	374,910	2,910,516
Purchase of investments	-	(551,879)
Gain from redemptions/sales of investments	-	6,173
Net cash provided by investing activities	<u>3,818,848</u>	<u>2,180,270</u>
<b>Net increase in cash and cash equivalents</b>	<b>3,375,020</b>	<b>108,119</b>
Cash and cash equivalents, unrestricted and restricted, beginning of year	<u>36,253,880</u>	<u>36,145,761</u>
Cash and cash equivalents, unrestricted and restricted, end of year	<u>\$ 39,628,900</u>	<u>36,253,880</u>

(Continued)

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**STATEMENTS OF CASH FLOWS, CONTINUED**

**Increase (Decrease) in Cash and Cash Equivalents**

<i>Years Ended June 30,</i>	<i>2015</i>	<i>2014</i>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>		
Operating income (loss)	\$ 62,713	(59,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2,625	2,625
Amortization of bond premium/discount, net	(4,797)	(4,797)
Amortization of bond issue costs and debt refundings	16,887	37,002
Changes in deferred amounts related to pensions	98,396	-
Impact of cumulative adjustment in net position to adopt GASB 68 and GASB 71	(212,609)	-
Change in operating assets and liabilities:		
Accrued interest—notes receivable	25,869	7,237
Accrued interest—investments	1,793	(9,372)
Miscellaneous accounts receivable	(142)	125
Accounts payable	58	(573)
Accrued compensated absences	3,243	1,454
Accrued interest payable	5,385	(10,942)
Net pension liability	46,751	-
	<u>46,751</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 46,172</u>	<u>(36,887)</u>

See Independent Auditors' Report.  
See accompanying notes to financial statements.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The Oklahoma Industrial Finance Authority (the “Authority”) was established under the Oklahoma Industrial Finance Authority Act of 1959. The beneficiary of the Authority is the State of Oklahoma (the “State”). The Authority assists with the State’s industrial development. The Authority makes loans to authorized industrial development agencies or trusts and new or expanding industries within the state. These loans are secured by first or second mortgages on real estate and equipment. The financial statements of the Authority are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the State that is attributable to the balances and transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

#### Fund Accounting

The Authority is organized and operated as an enterprise fund. An enterprise fund accounts for activities for which the intent of the governing body is that the cost of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of net income is appropriate.

#### Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB).

The Authority follows the provisions of GASB Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, in preparing its financial statements.

See Independent Auditors’ Report.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Basis of Accounting

The Authority prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when the obligation is incurred.

#### Notes Receivable and Allowance for Doubtful Accounts

Notes receivable are stated at the amount of unpaid principal, reduced by an allowance for doubtful accounts. Interest on notes receivable is calculated using the effective interest method. The allowance for doubtful accounts is established through a provision for bad debts that is charged to expense. Notes receivable are charged against the allowance for doubtful accounts when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing notes receivable that may become uncollectible, based on evaluations of the collectibility of notes receivable and the loss experience with prior notes receivable. The evaluations take into consideration such factors as changes in the nature and volume of the notes receivable portfolio, overall portfolio quality, review of specific problem notes receivable, and current economic conditions that may affect the borrower's ability to pay. Accrual of interest is discontinued on a note receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

#### Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

#### Debt Refundings

The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or deferred inflow of resources and is amortized on a straight-line basis over the life of the related debt as a component of interest expense. The total amount of the debt refundings as a result of the FY-2002 refunding of Series N, P, Q, and R was \$329,499. The carrying amount of the debt refundings at June 30, 2015 and 2014, was \$76,245 and \$93,132, respectively. Amortization expense of the debt refundings was \$16,887 for each of the years ended June 30, 2015 and 2014.

See Independent Auditors' Report.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

#### Investments

The Authority's investments are recorded at fair value in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

#### Compensated Absences

Employees earn annual vacation leave at the rate of 15 days per year during the first 5 years of service, 18 days per year for 5 to 10 years of service, 20 days per year for 10 to 20 years of service, and 25 days per year for 20 or more years of service. Unused annual leave may be accumulated to a maximum of 240 hours for service under 5 years and 480 hours for service years equal to or greater than 5 years. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

#### Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that will affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

#### Income Taxes

The Authority is a governmental agency organized under the laws of the State and is not subject to federal or state income taxes.

#### Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Authority adopted this statement effective July 1, 2014. The adoption of GASB 68 resulted in the restatement of beginning net position as of July 1, 2014 (see Note 2).

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Recent Accounting Pronouncements, Continued**

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. The Authority adopted this statement on July 1, 2014. The adoption of GASB 71 resulted in the restatement of beginning net position as of July 1, 2014 (see Note 2).

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. GASB 72 will require additional and/or revised disclosures in the financial statements.

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through October 22, 2015, the date that the financial statements were available to be issued.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(2) RESTATEMENT OF BEGINNING NET POSITION AS OF JULY 1, 2014**

The Authority's beginning net position as of July 1, 2014, has been restated for the effect of implementing GASB 68 and GASB 71. GASB 68 denotes that during implementation, if restatement of all prior years presented is not practical, the cumulative effect of applying GASB 68 should be reported as a restatement of beginning net position for the earliest period restated. As such, the beginning net position as of July 1, 2014, has been restated, as all information needed to restate for the year ended June 30, 2014, was not available.

The cumulative adjustment to the beginning net position as of July 1, 2014, consists of the following:

Beginning net position, as previously reported	\$	3,240,404
Adjustments:		
Record the Authority's proportionate share of the net pension liability of OPERS		(283,804)
Record the 2014 contributions by the Authority to OPERS as deferred outflows		<u>71,195</u>
Net effect of restatement		<u>(212,609)</u>
Beginning net position, as restated	\$	<u><u>3,027,795</u></u>

**(3) GENERAL OBLIGATION BONDS**

The Authority's general obligation bonds are authorized and issued for the funding of industrial finance loans to encourage business development within the state. All revenues arising from the net proceeds from repayment of industrial finance loans and interest received thereon are pledged under these bond issues. In addition, these general obligation bonds are backed by the full faith and credit of the State. The State has not made any payments on the general obligation bonds on behalf of the Authority. Changes in the general obligation debt outstanding (amounts expressed in thousands) for the years ended June 30, 2015 and 2014, were as follows:

Balance outstanding at June 30, 2013	\$	46,230
Less: Current maturities		<u>(655)</u>
Balance outstanding at June 30, 2014		45,575
Less: Current maturities		<u>(690)</u>
Balance outstanding at June 30, 2015	\$	<u><u>44,885</u></u>

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(3) GENERAL OBLIGATION BONDS, CONTINUED**

The general obligation bonds outstanding (dollars expressed in thousands) as of June 30 were as follows:

<u>Industrial Finance Bonds</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>2015</u>	<u>2014</u>
Series 2001 N	8/1/2018	**Variable 2.50%	\$ 10,000	10,000
Series 2001 P	8/1/2019	**Variable 2.50%	10,000	10,000
Series 2001 Q	11/1/2019	**Variable 2.50%	10,000	10,000
Series 2001 R	11/1/2021	**Variable 2.50%	10,000	10,000
Series W-1*	9/1/2020	5.00% to 5.20%	4,255	4,850
Series W-2*	9/1/2020	3.70% to 4.00%	630	725
Total			<u>44,885</u>	<u>45,575</u>
Less: General obligation bonds due within 1 year			<u>(720)</u>	<u>(690)</u>
Total general obligation bonds due after 1 year			<u>\$ 44,165</u>	<u>44,885</u>

\* The Authority used its cash position to pay off these bonds in September 2015.

\*\* These rates are variable and are established quarterly. Effective November 1, 2007, the rate is based on the prime rate published in the Wall Street Journal minus 2.90%, with a 2.50% floor. As of June 30, 2015 and 2014, the rates were at the minimum rate under the contract.

As of June 30, 2015, the Authority's general obligation bonds service requirements for principal and interest (dollars expressed in thousands) in future years were as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 720	1,224	1,944
2017	755	1,188	1,943
2018	795	1,151	1,946
2019	10,830	923	11,753
2020	20,870	506	21,376
2021–2022	<u>10,915</u>	<u>398</u>	<u>11,313</u>
	<u>\$ 44,885</u>	<u>5,390</u>	<u>50,275</u>

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(4) CASH DEPOSITS AND INVESTMENT RISK**

Certain cash and investments of the Authority are on deposit with the Oklahoma State Treasurer’s Office, which invests the funds at the direction and on behalf of the Authority.

The Bond Interest Account and the Bond Redemption Account were established by Oklahoma statutes for the purpose of paying and discharging the interest and principal on the State’s Industrial Finance Bonds. The general obligation bond resolutions and supplemental resolutions require the Authority to set aside in the Bond Interest Account an amount sufficient to cover all interest requirements at least 30 days prior to the due date. To guarantee the retirement of Industrial Finance Bonds at maturity, the Authority or the State Treasurer shall pay into the Bond Redemption Account an amount sufficient to cover bond redemption requirements as set forth in the general obligation bond resolutions and supplemental resolutions.

The balances in the previously mentioned accounts at June 30 consisted of cash and cash equivalents, which approximate fair value, and were as follows:

	<u>2015</u>	<u>2014</u>
Bond Redemption Account	\$ <u>13,872</u>	<u>13,082</u>

At June 30, 2015 and 2014, cash and cash equivalents amounted to \$39,628,900 and \$36,253,880, respectively, of which \$13,872 and \$13,082, respectively, was restricted cash, which was on deposit with the State Treasurer’s internal investment pool, OK INVEST.

*Investment Interest Rate Risk*—The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, except for its policy regarding its investments in Small Business Administration (SBA) guaranteed investment pools, for which the Authority’s policy focuses on the following limits:

- a) 80% or more of the SBA investments are to be at variable rates.
- b) Limited to a maximum premium of 102%.
- c) Total amount of purchases with interest caps are to be less than 30% of total SBA investments.

See Independent Auditors’ Report.

## OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

*Investment Credit Risk*—The Authority has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a) U.S. Treasury bills, notes, and bonds and U.S. government agency securities with certain ratings and maturity limitations.
- b) Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association, or credit union located in the state of Oklahoma.
- c) Certain ratings and maturity limitations, negotiable certificates of deposit, banker's acceptances, and commercial paper.
- d) Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e) Collateralized repurchase agreements and tri-party repurchase agreements.
- f) Money market mutual funds and short-term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in OK INVEST should be limited to obligations of the U.S. government and its agencies and instrumentalities, collateralized certificates of deposit, tri-party repurchase agreements collateralized at 100% with the collateral held by a third party in the name of the Oklahoma State Treasurer, and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or agency securities and repurchase agreements related to such securities. OK INVEST is not insured or guaranteed by the State, the Federal Deposit Insurance Corporation, or any other government agency.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED**

At June 30, 2015, the Authority’s investments, at fair value, in obligations not directly guaranteed by the U.S. government were as follows, none of which were rated, except for the University of Oklahoma general revenue bonds, which were rated AA-, and the highway capital improvement revenue bonds, which were rated AA:

<u>Description</u>	<u>Institution</u>	<u>Amount</u>	<u>Maturity***</u>
OK INVEST	State Treasurer	\$ 39,628,900	N/A
ODFA revenue bond**	ODFA	9,999,000	4/1/2031
ODFA Department of Human Services note**	ODFA	457,289	7/1/2019
ODFA Woodward Industrial Foundation note**	ODFA	1,107,146	2/1/2027
ODFA Muskogee City— County Port Authority Note #1**	ODFA	956,674	10/1/2028
ODFA Muskogee City— County Port Authority Note #2**	ODFA	584,487	4/1/2033
University of Oklahoma general revenue bonds	Board of Regents of the University of Oklahoma	2,446,947	7/1/2019– 7/1/2022
Highway capital improvement revenue bonds	Oklahoma Capitol Improvement Authority	1,098,860	7/1/2019
SBA investment pools*	SBA	<u>412,570</u>	8/25/2016– 7/25/2025
		<u>\$ 56,691,873</u>	

\* The SBA investments are indirectly guaranteed by the U.S. government.

\*\* Investments are secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund, which has an AA+ rating.

\*\*\* The weighted average maturity of the University of Oklahoma general revenue bonds, the highway capital improvement revenue bonds, the SBA investment pools, and total investments (excluding investments in OK INVEST) was 5.43, 4.01, 5.88, and 12.77 years, respectively.

N/A Not applicable.

See Independent Auditors’ Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED**

At June 30, 2014, the Authority’s investments, at fair value, in obligations not directly guaranteed by the U.S. government were as follows, none of which were rated, except for the University of Oklahoma general revenue bonds, which were rated AA-, and the highway capital improvement revenue bonds, which were rated AA:

<u>Description</u>	<u>Institution</u>	<u>Amount</u>	<u>Maturity***</u>
OK INVEST	State Treasurer	\$ 36,253,880	N/A
ODFA revenue bond**	ODFA	9,999,000	4/1/2031
ODFA Department of Human Services note**	ODFA	551,879	7/1/2019
ODFA Woodward Industrial Foundation note**	ODFA	1,179,087	2/1/2027
ODFA Muskogee City— County Port Authority Note #1**	ODFA	1,017,522	10/1/2028
ODFA Muskogee City— County Port Authority Note #2**	ODFA	610,181	4/1/2033
University of Oklahoma general revenue bonds	Board of Regents of the University of Oklahoma	2,456,547	7/1/2019– 7/1/2022
Highway capital improvement revenue bonds	Oklahoma Capitol Improvement Authority	1,120,910	7/1/2019
SBA investment pools*	SBA	534,407	8/25/2016– 7/25/2025
		<u>\$ 53,723,413</u>	

\* The SBA investments are indirectly guaranteed by the U.S. government.

\*\* Investments are secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund, which has an AA+ rating.

\*\*\* The weighted average maturity of the University of Oklahoma general revenue bonds, the highway capital improvement revenue bonds, the SBA investment pools, and total investments (excluding investments in OK INVEST) was 6.43, 5.01, 6.79, and 13.56 years, respectively.

N/A Not applicable.

See Independent Auditors’ Report.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

*Concentrations of Investment Credit Risk*—The Authority has no limit on the amount it may invest in any one issuer. The Authority had the following concentrations of credit risk at June 30, 2015: 69.9%, or \$39,628,900, invested in OK INVEST; and 17.6%, or \$9,999,000, invested in an Oklahoma Development Finance Authority (ODFA) revenue bond. The Authority had the following concentrations of credit risk at June 30, 2014: 67.5%, or \$36,253,880, invested in OK INVEST; and 18.6%, or \$9,999,000, invested in an ODFA revenue bond.

Investments in the State Treasurer’s internal investment pool, OK INVEST are recorded at cost, which approximates fair value due to the short-term nature and use of the cash accounts. Investments in SBA investment pools are recorded at fair value, based on quoted market prices received from pricing services for identical securities or comparable securities. The University of Oklahoma general revenue bonds and the highway capital improvement revenue bonds are recorded at fair value based on quoted market prices received from pricing services for identical securities or comparable securities. The ODFA revenue bond; the ODFA Department of Human Services note; the ODFA Woodward Industrial Foundation note; the ODFA Muskogee City—County Port Authority Note #1; and the ODFA Muskogee City—County Port Authority Note #2 have been recorded at cost, which approximates fair value due to the variability of interest rates and/or the fact the fixed interest rates are not significantly different than current market rates offered on instruments with similar credit risks and maturities.

On February 19, 2009, the Authority purchased for investment \$2,145,000 of general revenue bonds issued by the Board of Regents of the University of Oklahoma. The bonds begin to mature on July 1, 2019, through July 1, 2022. The bonds bear interest at 5.28%, which is payable on January 1 and July 1. Interest and principal will be repaid from “pledged revenues” of the University of Oklahoma, as defined in the bond agreement.

On September 16, 2009, the Authority purchased for investment \$1,000,000 of highway capital improvement revenue bonds issued by the Oklahoma Capitol Improvement Authority. The bonds mature on July 1, 2019. The bonds bear interest at 5.04%, which is payable on January 1 and July 1. Interest and principal will be repaid from the revenues specifically pledged to their payment by the Oklahoma Capitol Improvement Authority, as defined in the bond agreement.

See Independent Auditors’ Report.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

#### Related-Party Investments

On September 12, 1996, the Authority purchased for investment a revenue bond issued by the ODFA, a public trust and instrumentality of the State. Both the Authority and the ODFA share common board members and employees. The principal amount of the bond is \$9,999,000 and was scheduled to mature April 1, 2006, but has been extended to April 1, 2031, as stated in the extension agreement dated April 1, 2006. The bond bears interest at a variable rate equivalent to the Authority's cost of funds on its outstanding variable rate bond issues, adjusted quarterly. As of June 30, 2015 and 2014, the interest rate paid by the bond was 2.50%. The Authority can dispose of the bond at any time for a price equal to the outstanding principal plus interest accrued to the date of the sale. The bond is secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On June 4, 1999, the Authority issued a \$1,395,856 note to the ODFA. The proceeds were then loaned to the Woodward Industrial Foundation by the ODFA for use in building a spec building as part of the ODFA's Spec Building Program. Interest-only payments were to be made for the first 72 months beginning July 1, 1999. The first monthly installment of principal and interest was originally due on July 1, 2005, with an original final scheduled maturity of June 1, 2020. The note has been amended numerous times to extend the maturity date and the interest-only payment period and to reduce the interest rate through January 31, 2012, at 4.00%. On February 1, 2012, the note was placed on a 15-year amortization at a fixed interest rate of 5.50% for the first 5 years, 6.00% for the next 5 years, and 6.50% for the remaining 5 years. The note is secured by a first real estate mortgage and a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On September 26, 2003, the Authority issued a \$1,500,000 note to the ODFA. The proceeds were then loaned to the Muskogee City—County Port Authority by the ODFA for use in constructing a multi-use safe harbor. The note pays interest at Prime less 1.00%, adjusted annually, which at June 30, 2015 and 2014, was 2.25%. The first monthly installment was due on November 1, 2003, with a final scheduled maturity of October 1, 2028. The note is secured by a security interest on all revenues of the Muskogee City—County Port Authority and by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(4) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED**

**Related-Party Investments, Continued**

On March 20, 2008, the Authority issued a \$750,000 note to the ODFA. The proceeds were then loaned to the Muskogee City—County Port Authority by the ODFA for use in funding increased project costs related to a multi-purpose facility. The note pays` interest at Prime less 1.00% percent, adjusted annually, with a 2.50% floor. The interest rate at June 30, 2015 and 2014, was 2.50%. The first monthly installment was due on May 1, 2008, with a final scheduled maturity of April 1, 2033. The note is secured by a security interest on all revenues of the Muskogee City—County Port Authority and by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On June 25, 2014, the Authority issued a \$551,879 note to the ODFA. The proceeds were used to refinance a loan between the ODFA and the Oklahoma Department of Human Service (ODHS), which was originally funded to acquire, construct, and equip two buildings for ODHS in Enid, Oklahoma. The first monthly installment of principal and interest is due on August 1, 2014, with a final scheduled maturity of July 1, 2019. The note accrues interest at a fixed rate of 3.25% and is secured by a leasehold mortgage and by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

**(5) NOTES RECEIVABLE**

The Authority’s notes receivable consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Industrial project loans	\$ 3,603,434	7,047,372
Less current portion	<u>(371,958)</u>	<u>(729,237)</u>
Long-term notes receivable	3,231,476	6,318,135
Allowance for doubtful accounts	<u>(77,730)</u>	<u>(77,730)</u>
Net long-term notes receivable	<u>\$ 3,153,746</u>	<u>6,240,405</u>

At both June 30, 2015 and 2014, non-accrual loans totaled \$140,308. There were no loans past due over 90 days accruing interest.

See Independent Auditors’ Report.

## OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS, CONTINUED

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#### (6) INVESTMENT CERTIFICATE AGREEMENTS WITH THE ODFA

On July 1, 2012, the Authority entered into an investment certificate agreement with the ODFA, whereby an amount transferred from the ODFA, not to exceed \$15,000,000, would be invested by the Authority into OK INVEST. The ODFA earned interest under this investment certificate agreement equal to 1.00% below the rate the Authority earned from OK INVEST from July 1, 2012, through December 31, 2013, and earns interest under this investment certificate agreement equal to 1.25% below the rate the Authority earns from OK INVEST beginning on January 1, 2014. The agreement expires in June 2022. Under the agreement, the Authority is required to return the invested principal to the ODFA upon 3 days' notice of redemption. The ODFA can request redemptions of the principal in full or in part at any time. The Authority accounts for this agreement as a liability to the ODFA, which was \$11,944,736 at both June 30, 2015 and 2014. Total interest expense incurred under this agreement approximated \$64,500 and \$98,600 during the years ended June 30, 2015 and 2014, respectively.

On October 3, 2014, the Authority entered into an investment certificate agreement with the ODFA, whereby \$200,000 received from the ODFA would be invested by the Authority into OK INVEST. The ODFA earns interest under this investment certificate agreement equal to one-half of the rate the Authority earns from OK INVEST. The agreement expires in October 2028. Under the agreement, the Authority is required to return the invested principal to the ODFA upon 3 days' notice of redemption. The ODFA can request redemptions of the principal in full or in part at any time. The Authority accounts for this agreement as a liability to the ODFA, which was \$200,000 at June 30, 2015. Total interest expense incurred under this agreement was \$1,321 during the year ended June 30, 2015.

#### (7) PENSION PLAN

##### Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (OPERS), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). OPERS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of OPERS to the Board of Trustees of the System (the "Board"). The System issues a publicly available annual financial report that includes financial statements and required supplementary information for OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008, or can be obtained at [www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2014-OPERS.pdf](http://www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2014-OPERS.pdf).

See Independent Auditors' Report.

# OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

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### (7) PENSION PLAN, CONTINUED

#### Benefits Provided

OPERS provides members with full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Benefits Provided, Continued**

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary(ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

Upon the death of a retired member, OPERS will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

**Contributions**

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

For 2015 and 2014, *state agency employers* contributed 16.5% on all salary, and *state employees* contributed 3.5% on all salary.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Contributions, Continued**

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91%, which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS by the Authority for 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
\$	<u>70,647</u>	<u>71,195</u>

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Authority reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Authority's proportion of the net pension liability was based on the Authority's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2014. Based upon this information, the Authority's proportion was 0.025469%.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued**

For the year ended June 30, 2015, the Authority recognized pension expense of \$3,183. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	15,478
Changes of assumptions	2,675	-
Net difference between projected and actual earnings on pension plan investments	-	156,240
Authority contributions subsequent to the measurement date	<u>70,647</u>	<u>-</u>
	<u>\$ 73,322</u>	<u>171,718</u>

Reported deferred outflows of resources of \$70,647 related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (35,325)
2017	(35,325)
2018	(35,325)
2019	(31,819)
2020	<u>(31,249)</u>
	<u>\$ (169,043)</u>

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Actuarial Methods and Assumptions**

The total pension liability was determined from an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

Investment return:	7.5% compounded annually net of investment expense and including inflation
Salary increases:	4.5% to 8.4% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	3.0%
Payroll growth:	4.0% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2014, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Actuarial Methods and Assumptions, Continued**

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<b><u>100.0%</u></b>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) PENSION PLAN, CONTINUED**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Authority calculated using the discount rate of 7.5%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate as of June 30, 2015:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Net pension liability (asset)	\$ <u>291,000</u>	<u>46,751</u>	<u>(161,000)</u>

**Pension Plan Fiduciary Net Position**

Detailed information about OPERS' fiduciary net position is available in the separately issued financial report of OPERS, which can be located at [www.opers.ok.gov](http://www.opers.ok.gov).

**(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND DEFERRED SAVINGS INCENTIVE PLAN**

**Deferred Compensation Plan**

The State offers its employees a Deferred Compensation Plan as authorized by Section 457 of the Internal Revenue Code (IRC), as amended by the Tax Reform Act of 1986, and in accordance with the provisions of Sections 1701 through 1706 of Title 74 of the Oklahoma Statutes.

The supervisory authority for the management and operation of the Deferred Compensation Plan is the Board.

The Deferred Compensation Plan is available to all State employees, as well as any elected officials receiving a salary from the State. Participants may direct the investment of their contributions in available investment options offered by the Deferred Compensation Plan. Participants are immediately 100% vested in their respective accounts. All interest, dividends, and investment fees are allocated to participants' accounts.

Participants may defer until future years up to the lesser of 100% of their compensation as defined by Deferred Compensation Plan documents or the maximum amount allowed each year as determined by the Internal Revenue Service.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(8) OKLAHOMA STATE EMPLOYEES DEFERRED COMPENSATION PLAN AND  
DEFERRED SAVINGS INCENTIVE PLAN, CONTINUED**

**Deferred Compensation Plan, Continued**

Deferred compensation benefits are paid to participants or beneficiaries upon termination, retirement, death, or unforeseeable emergency. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments at the option of the participant or beneficiaries in accordance with the Deferred Compensation Plan's provisions.

**Deferred Savings Incentive Plan**

Effective January 1, 1998, the State established the Oklahoma State Employees Deferred Savings Incentive Plan (the "Savings Incentive Plan") as a money purchase pension plan pursuant to IRC Section 401(a). The Savings Incentive Plan and its related trust are intended to meet the requirements of IRC Sections 401(a) and 501(a).

Any qualified participant who is a State employee who is an active participant in the Deferred Compensation Plan is eligible for a contribution of the amount determined by Oklahoma Legislature, currently the equivalent of \$25 per month. Participation in the Savings Incentive Plan is automatic in the month of participation in the Deferred Compensation Plan and is not voluntary.

Upon cessation of contributions to the Deferred Compensation Plan, termination of employment with the State, retirement, or death, a participant will no longer be eligible for contributions from the State into the Savings Incentive Plan. Participants are at all times 100% vested in their Savings Incentive Plan account. Participant contributions are not required or permitted. Qualified participants may make rollover contributions to the Savings Incentive Plan, provided such rollover contributions meet applicable requirements of the IRC. Plan participants may direct the investment of the contributions in available investment options offered by the Savings Incentive Plan. All interest, dividends, and investment fees are allocated to the participants' accounts.

Savings Incentive Plan benefits are paid to participants or beneficiaries upon termination, retirement, or death. Such benefits are based on a participant's account balance and are disbursed in a lump sum or periodic payments or may be rolled over to a qualified plan at the option of the participant or beneficiaries.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(9) LEASED PROPERTY**

The Authority owns a building and land, which it leases under a short-term operating lease (annual lease terms) expiring in the next year.

The leased building had a gross cost of \$105,000 and is being depreciated over its estimated useful life of 40 years using the straight-line method of depreciation. Depreciation expense was \$2,625 for each of the years ended June 30, 2015 and 2014.

A summary of changes in leased property for the years ended June 30 is as follows:

	<u>2015</u>			
	<u>Balance at</u> <u>Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>End of Year</u>
Cost:				
Land	\$ 75,000	-	-	75,000
Building	<u>105,000</u>	<u>-</u>	<u>-</u>	<u>105,000</u>
	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Accumulated depreciation on building	<u>(57,750)</u>	<u>(2,625)</u>	<u>-</u>	<u>(60,375)</u>
Leased property, net	<u>\$ 122,250</u>	<u>(2,625)</u>	<u>-</u>	<u>119,625</u>
	<u>2014</u>			
	<u>Balance at</u> <u>Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>End of Year</u>
Cost:				
Land	\$ 75,000	-	-	75,000
Building	<u>105,000</u>	<u>-</u>	<u>-</u>	<u>105,000</u>
	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Accumulated depreciation on building	<u>(55,125)</u>	<u>(2,625)</u>	<u>-</u>	<u>(57,750)</u>
Leased property, net	<u>\$ 124,875</u>	<u>(2,625)</u>	<u>-</u>	<u>122,250</u>

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(10) LOAN COMMITMENTS**

The Authority had \$5,000,000 in outstanding loan commitments as of June 30, 2015, and no outstanding loan commitments as of June 30, 2014.

**(11) RISK MANAGEMENT**

The Authority utilizes the Risk Management Division of the State for property insurance. Comprehensive general liability and personal injury liability are also covered.

**(12) RELATED-PARTY TRANSACTIONS**

The Authority shares office space, personnel, and common board members with the ODFA. Such costs are being shared and billed to the Authority and the ODFA at 25% and 75%, respectively. Prior to January 1, 2014, costs were shared at 40% and 60% to the Authority and ODFA, respectively. During 2015 and 2014, the Authority was reimbursed approximately \$493,000 and \$451,000, respectively, of shared cost from ODFA.

See discussion of investment certificates with ODFA at Note 6. See discussion of investment transactions with ODFA at Note 4.

See Independent Auditors' Report.

**SUPPLEMENTARY INFORMATION REQUIRED BY  
GOVERNMENTAL ACCOUNTING STANDARDS BOARD  
STATEMENT NO. 68**

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF  
NET PENSION LIABILITY  
Oklahoma Public Employees Retirement Plan**

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**Current Fiscal Year**

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	<u>2015</u>
Authority's proportion of the net pension liability	0.025469%
Authority's proportionate share of the net pension liability	\$ 46,751
Authority's covered-employee payroll	428,164
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	10.92%
OPERS' fiduciary net position as a percentage of the total pension liability	97.90%

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\* The amounts presented for each year end were determined as of  
June 30th of the prior year.

Only the current fiscal year is presented because data for the prior  
nine fiscal years is not readily available.

See Independent Auditors' Report.

**OKLAHOMA INDUSTRIAL FINANCE AUTHORITY**

**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS  
Oklahoma Public Employees Retirement Plan**

**Last 5 Fiscal Years**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 70,647	71,195	62,442	81,079	73,540
Contributions in relation to the contractually required contributions	<u>70,647</u>	<u>71,195</u>	<u>62,442</u>	<u>81,079</u>	<u>73,540</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Authority's covered-employee payroll	\$ 428,164	431,485	378,436	491,388	474,452
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%	16.50%	15.50%

Only the last 5 fiscal years are presented because data for the prior 5 fiscal years is not readily available.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' 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 Directors  
Oklahoma Industrial Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States 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 Industrial Finance Authority (the "Authority"), which is a part of the State of Oklahoma financial reporting entity, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 22, 2015. Our report includes an explanatory paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71) by the Authority, requiring the restatement of the beginning net position as of July 1, 2014. Our report also includes an explanatory paragraph to emphasize the fact that the financial statements include only that portion of the State of Oklahoma that is attributable to balances and transactions of the Authority.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing 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 Authority'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.

(Continued)

**INDEPENDENT AUDITORS' 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*, CONTINUED**

**Internal Control Over Financial Reporting, Continued**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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 the 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finley & Cook, PLLC*

Shawnee, Oklahoma  
October 22, 2015