

OKLAHOMA INDUSTRIES AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2023

**TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

HSPG
&
ASSOCIATES

ACCOUNTING | TAX | ADVISORY

OKLAHOMA INDUSTRIES AUTHORITY

Table of Contents

June 30, 2023

AUDITED FINANCIAL STATEMENTS

Independent Auditor's Report	1
Financial Statements	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to Financial Statements	7
Other Reports:	
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>	15



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Oklahoma Industries Authority
Oklahoma City, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Oklahoma Industries Authority (the Authority) as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern within one year after the date that the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if

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there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the 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 December 28, 2023, on our consideration of the Authority's internal control over financial reporting and 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 the effectiveness of the Authority's 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.

HSPG & Associates, P.C.

December 28, 2023

OKLAHOMA INDUSTRIES AUTHORITY
STATEMENT OF NET POSITION
JUNE 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

CURRENT ASSETS:

Cash and cash equivalents	\$ 2,989,242
Investments	4,691,315
Lease receivable, current	2,376,639
Prepaid and other	125,907
Accounts receivable and other	264,242
Total current assets	<u>10,447,345</u>

CAPITAL ASSETS:

Land	6,610,260
Land - restricted	12,339,398
Building - MROTC	28,482,739
	<u>47,432,397</u>
Less accumulated depreciation	<u>(8,897,202)</u>
Total capital assets, net	<u>38,535,195</u>

Lease receivable, less current portion	3,056,141
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TOTAL ASSETS	<u>52,038,681</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on debt refunding	79,018
Total assets and deferred outflows of resources	<u>\$ 52,117,699</u>

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 92,394
Unearned revenues	577,299
Current portion of loan payable - MROTC project	1,744,872
Total current liabilities	<u>2,414,565</u>

NONCURRENT LIABILITIES:

Deposits	50,000
Loan payable - MROTC project	1,814,491
Total noncurrent liabilities	1,864,491
Total liabilities	<u>4,279,056</u>

DEFERRED INFLOWS OF RESOURCES - Leases	5,412,492
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NET POSITION:

Net investment in capital assets	22,715,453
Restricted	12,339,398
Unrestricted	7,371,300
Total net position	<u>42,426,151</u>

Total liabilities, deferred inflows of resources and net position	<u>\$ 52,117,699</u>
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The accompanying notes are an integral part of these financial statements.

OKLAHOMA INDUSTRIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2023

OPERATING REVENUES

MROTC lease revenue	\$ 2,332,997
MROTC security services revenue	360,000
Interest income on lease receivables	58,557
C-PACE revenue	94,160
Other lease revenue	57,082
Other revenue	20,219
	<hr/>
Total operating revenues	2,923,015
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OPERATING EXPENSES

Depreciation expense	569,655
Insurance	145,633
Professional services	619,692
Management and trustee fees	25,741
MROTC facility expense	355,536
Interest	408,304
Other	57,237
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Total Operating expenses	2,181,798
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OPERATING INCOME (LOSS)

741,217

NONOPERATING REVENUES (EXPENSES)

Investment interest income	164,243
Unrealized loss on investments	(6,251)
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Total nonoperating revenues (expenses)	157,992
	<hr/>

CHANGE IN NET POSITION

899,209

NET POSITION, BEGINNING OF YEAR

41,526,942

NET POSITION, END OF YEAR

\$ 42,426,151

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

OKLAHOMA INDUSTRIES AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

MROTC payments received	\$ 2,736,303
Grants and other revenue received	443,928
Lease rental payments received	85,651
Earnest money received	50,000
Operating expenses paid	(1,326,565)

Net cash provided by operating activities	1,989,317
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

MROTC loan payments	(1,678,444)
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Net cash used in capital and related financing activities	(1,678,444)
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(3,224,410)
Proceeds from investment maturities	500,000
Interest received on investments	164,243

Net cash used in investing activities	(2,560,167)
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CHANGE IN CASH AND CASH EQUIVALENTS	(2,249,294)
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CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,238,536
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,989,242
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(CONTINUED)

OKLAHOMA INDUSTRIES AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended June 30, 2023

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

(CONTINUED)

Operating income	\$ 741,217
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	569,655
Amortization of deferred outflows of resources	233,623
Amortization of deferred inflows of resources	(1,586,501)
Increase in prepaid insurance	(10,813)
Decrease in accounts receivable and other	115,968
Decrease in lease receivable	1,616,947
Increase in accounts payable and accrued liabilities	62,768
Increase in deposits	50,000
Increase in unearned revenue	196,453
Net cash provided by operating activities	<u>\$ 1,989,317</u>

NONCASH TRANSACTIONS

Unrealized loss on investments	\$ (6,251)
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The accompanying notes are an integral part of these financial statements.

OKLAHOMA INDUSTRIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The Oklahoma Industries Authority (the “Authority”) is an Oklahoma public trust and an agency of the State of Oklahoma. It was created on December 15, 1966, to promote and encourage the general development of Oklahoma County, Oklahoma (the “County”) under the provisions of Title 60, Section 176 of the Oklahoma Statutes, and other applicable statutes and laws. The County is the beneficiary of this trust and will receive all residual trust funds and assets upon termination of the trust.

Operations – The Authority arranges bond and loan financing with the participation of trustee banks to industrial, manufacturing, medical, civic, cultural, and educational enterprises located principally in the County for the purpose of constructing, purchasing, expanding, or otherwise improving the facilities required by such enterprises and also provides economic development services and facilities to support economic development in the County.

The Authority also administers Oklahoma County’s Commercial Property Assessed Clean Energy (“C-PACE”) program. On November 1, 2021, the Oklahoma County Board of County Commissioners created a pilot program for the Oklahoma County C-PACE program and named the Authority third-party administrator. The program, authorized by the Oklahoma Energy Dependence Act, facilitates private financing between capital providers and commercial property owners for eligible projects located within Oklahoma County. Eligible improvements related to energy efficiently must be made to the property to qualify for C-PACE financing.

The following is a summary of the more significant accounting policies consistently followed in the preparation of the Authority's financial statements.

Basis of Presentation – The Authority accounts for its operations as an enterprise fund. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, similar to private business enterprises. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

Income Taxes – The Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code; accordingly, no provision has been made for income taxes.

Capital Assets – Capital assets are valued at historical cost or estimated historical cost. The Authority has chosen the straight-line depreciation method for its capital assets based on the estimated useful lives of the capital assets, which vary between 20 and 50 years.

Cash and Cash Equivalents – The Authority considers all liquid debt instruments purchased with a maturity of three months or less and money market mutual funds to be cash equivalents.

Investments and investment income – Investments in negotiable certificates of deposit and U.S. Treasury Notes are carried at fair value. Fair value is determined from quoted market prices. Investment income consists of interest income and the net change for the year in the fair value of the investments.

Unearned Revenue – As of June 30, 2023 the Authority was awarded grants totaling \$577,299 through the Oklahoma Strategic Military Planning Commission, State of Oklahoma Department of Commerce for future projects related to the expansion of Tinker Air Force Base and maintenance of certain facilities. The grant funds have been received but not expended as of June 30, 2023 and are recorded as unearned revenue at June 30, 2023.

Deferred Outflows of Resources – The Authority reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its statement of net position. At June 30, 2023, deferred outflows of resources totaling \$79,018 represents deferred loss on the debt refinancing of the MROTC project loan payable during the year ended June 30, 2020. This amount is amortized over the life of the related loan payable as interest expense.

Accounting for Long-Lived Assets – The Authority reviews long-lived assets for impairment whenever indicators of impairment are present to determine if the carrying amounts exceed the estimated future net cash flows to be realized. Impairment losses are recognized based on the estimated fair value of the asset. No long-lived asset impairments were recorded in 2023.

Net Position – The net position of the Authority is classified in three components:

- **Net Investments in Capital Assets** - Represents capital assets net of accumulated depreciation and reduced by the outstanding balance of debt used to finance the acquisition or construction of those assets.
- **Restricted** - Represents net position that has been restricted by sources external to the Authority. Restricted net position of \$12,339,398 represents land purchased through funds provided by Oklahoma City Economic Development Trust (“OCEDT”) and held on behalf of OCEDT. When sold or leased to third parties, the Authority is required to remit the net proceeds from sales back to OCEDT, or when leased, assign all leases to OCEDT.
- **Unrestricted** - Residual amount of net position that does not meet the definition of net investment in capital assets or restricted net position.

Leases – The Authority, as lessor, leases land and facilities to external parties. The Authority recognizes a lease receivable and a deferred inflow of resources in the financial statements for leases with long-term noncancellable lease terms. At the commencement of a lease, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Classification of Revenues – The Authority has classified its revenues as either operating or nonoperating according to the characteristics of exchange vs. nonexchange transactions.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes; accordingly, actual results could differ from those estimates.

Recently adopted accounting standards – The Authority has adopted Governmental Accounting Standards Board Statement No. 91, "Conduit Debt Obligations," ("GASB 91") effective for the fiscal year ended June 30, 2023. GASB 91 establishes accounting and financial reporting standards for conduit debt obligations issued on behalf of third parties. The adoption of GASB 91 did not have a material impact on the government's financial position, results of operations, or cash flows.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents – Custodial credit risk is the risk that in the event of the failure of a counterparty the Authority will not be able to recover the value of its assets. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. The policy of the Authority is to require all deposits be maintained in accounts that are fully insured or collateralized. As of June 30, 2023, the Authority had bank deposits totaling \$237,833 that were uninsured and uncollateralized. The Authority has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk. Investments and cash equivalents other than bank deposit accounts are held in trust with a financial institution in which all balances are collateralized by the pledging financial institution's trust department in the name of the financial institution.

Investments – The Authority has adopted the provisions of Oklahoma State Statute Title 62, which limits the types of investment vehicles permitted with a long-term investment discipline. Investments permitted include direct obligations of the U.S. federal government; county, municipal, or school district direct debt obligations; collateralized or insured certificates of deposit; savings accounts; or certificates and other limited investment vehicles as permitted by state law. At June 30, 2023, the Authority had the following investments:

	<u>Fair Value</u>	<u>Fiscal Year Maturity Date</u>	
		<u>2024</u>	<u>2025</u>
US. Treasury Notes and Bills	\$ 2,207,440	\$ 2,207,440	\$ -
Certificates of deposit	<u>2,483,875</u>	<u>1,995,840</u>	<u>488,035</u>
Total investments	<u>\$ 4,691,315</u>	<u>\$ 4,203,280</u>	<u>\$ 488,035</u>

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority and are held by a counterparty or the counterparty's trust department but not in the name of the Authority. At June 30, 2023, the Authority does not have any securities that are not registered in the name of the Authority.

3. FAIR VALUE MEASUREMENTS

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date; Level 2 inputs are inputs, other than

quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly; Level 3 inputs are unobservable inputs for an asset or liability. The Authority has the following recurring fair value measurements as of June 30, 2023:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
US. Treasury Notes and Bills	\$ 2,207,440	\$ 2,207,440	\$ -	\$ -
Certificates of deposit	2,483,875	-	2,483,875	-
Total investments	<u>\$4,691,315</u>	<u>\$ 2,207,440</u>	<u>\$ 2,483,875</u>	<u>\$ -</u>

The fair values of U.S. treasury notes and T-Bills are based on quoted market prices in active markets, and are included in the Level 1 fair value hierarchy. Certificates of deposit are valued on the basis of evaluated prices provided by independent pricing services when such processes are believed to reflect the fair market value of such securities and are classified within Level 2 of the fair value hierarchy.

4. CAPITAL ASSETS

Capital assets at June 30, 2023 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 6,610,260	\$ -	\$ -	\$ 6,610,260
Land - restricted	12,339,398	-	-	12,339,398
	18,949,658	-	-	18,949,658
Building - MROTC	28,482,739	-	-	28,482,739
	28,482,739	-	-	28,482,739
Less accumulated depreciation	(8,327,547)	(569,655)	-	(8,897,202)
Depreciable capital assets, net	20,155,192	(569,655)	-	19,585,537
Total capital assets, net	<u>\$39,104,850</u>	<u>\$ (569,655)</u>	<u>\$ -</u>	<u>\$38,535,195</u>

During the year ended June 30, 2021, the Authority received approximately \$12,300,000 from OCEDT, to buy certain commercial properties from third parties, which were then exchanged for land of equal value held by the Commissioners of the Land Office of the State of Oklahoma referred to as the I-240 and Eastern Tract (the "Tract"). The Authority entered into a memorandum of agreement (the "Agreement") with OCEDT in regard to the Tract which requires the Authority to attempt to engage a master developer through a competitive proposal process or otherwise market the Tract for commercial economic development. Any net proceeds from the sale of the Tract would be remitted to OCEDT. OCEDT retains approval authority over all transactions related to the land. The Tract is recorded as restricted land and restricted net position in the statement of net position due to the restrictions and conditions included in the Agreement.

5. CONDUIT DEBT OBLIGATIONS

From time to time, the Authority has issued revenue bonds to provide financial assistance to private and public sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on underlying mortgage loans or leasing arrangements. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private/public sector entity. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2023, there were four series of industrial revenue bonds outstanding with an aggregate principal amount payable of \$23,950,000.

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt for the year ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Loan payable:					
MROTC project	\$5,237,807	\$ -	\$(1,678,444)	\$ 3,559,363	\$ 1,744,872

On June 29, 2020, the Authority entered into a long-term loan payable of \$8,404,691, which retired the remaining principal from the construction of the MROTC facility. The loan carries an interest rate of 3.85% and requires principal and interest payments of \$154,427 occurring monthly until maturity on June 29, 2025.

Future minimum debt service requirements for the loan payable are as follows at June 30, 2023:

	Principal	Interest	Total
2024	\$ 1,744,872	\$ 108,254	\$ 1,853,126
2025	1,814,491	38,635	1,853,126
	<u>\$ 3,559,363</u>	<u>\$ 146,889</u>	<u>\$ 3,706,252</u>

7. LEASES

The Authority recognizes a lease receivable and a corresponding deferred inflow of resources from certain long-term leases as required under Governmental Accounting Standards Board Statement No. 87 – “Leases” (“GASB 87”). These leases consisted of the following as of June 30, 2023:

	Lease Receivable		Interest	Lease	Deferred
	Current	Long Term	Income	Revenue	Inflows
MROTC Lease	\$ 2,349,868	\$2,366,985	\$ 43,429	\$ 2,332,997	\$ 4,665,996
OKC 577 Lease	26,771	689,156	15,128	22,331	746,496
	<u>\$ 2,376,639</u>	<u>\$3,056,141</u>	<u>\$ 58,557</u>	<u>\$ 2,355,328</u>	<u>\$ 5,412,492</u>

MROTC Lease - Effective June 30, 2020, in connection with the restructuring of the MROTC project loan, the Authority directly entered into a new lease agreement with the United States Air Force (USAF) for the MROTC facility. This lease replaced an existing lease between the United States Air Force and a wholly owned subsidiary of the Authority. The new lease term was for one year, terminating on June 29, 2021, with four additional one-year non-cancelable renewal periods. Renewal periods through June 29, 2024 have been exercised. The Authority believes the lessee will exercise the final extension through June 29, 2025. Renewals are available by providing 30 days' advance notice. Included in the lease is an option for the lessee to acquire the leased premises at the fair market valuation of the premises as determined by an appraisal. Payments of \$198,025 are required monthly for a total of \$2,376,300 to be paid annually. In addition, the Authority provides security for the premises for an additional \$30,000 per month for a total of \$360,000 per year.

As required under GASB 87, a lease receivable and corresponding deferred inflow of resources for the MROTC facility lease agreement are recorded in the statement of net position totaling \$4,716,853 and \$4,665,996, respectively at June 30, 2023. The amounts were initially calculated based on the present value of lease payments expected to be received during the lease term using a discount rate of 0.726% as of the beginning of the lease. Payments are fixed at \$198,025 monthly through the final available extension through June 29, 2025. The Authority has recognized interest income on the lease receivable of \$43,429 and rental revenue of \$2,332,997 for the period ended June 30, 2023. Rental revenue is based on the straight-line amortization of the initial present value of lease payments over the lease term.

Future receipts of principal and interest on the MROTC lease receivable are as follows:

	<u>Principal</u>	<u>Interest</u>
2024	\$ 2,349,868	\$ 26,435
2025	2,366,985	9,318
	<u>\$4,716,853</u>	<u>\$ 35,753</u>

OKC 577 Lease – Effective December 15, 2022, in connection with the development of the I-240 and Eastern Tract (see note 4 above), the Authority entered into a lease agreement with OKC 577, LLC, as master developer, (the “OKC 577 Lease”) for 529 acres within this tract. The non-cancelable lease term is for 20 years terminating on December 14, 2042. The lease includes eight additional five-year renewal options; however, the likelihood of the renewal is unknown at this time. Payments of \$100 per acre are required annually at the beginning of the term year. As acreage is developed, it may be sold under the terms of the lease.

As required under GASB 87, a lease receivable and corresponding deferred inflow of resources for the lease are recorded in the statement of net position totaling \$715,927 and \$746,496, respectively at June 30, 2023. The amounts were initially calculated based on the present value of lease payments expected to be received during the lease term using a discount rate of 3.59% as of the beginning of the lease. Lease payments are \$52,900 annually through the initial term of the agreement. The Authority has recognized interest income on the lease receivable of \$15,128 and rental revenue of \$22,331 for the period ended June 30, 2023. Rental revenue is based on the straight-line amortization of the initial present value of lease payments over the lease term.

Future receipts of principal and interest on the OKC 577 lease receivable are as follows:

	<u>Principal</u>	<u>Interest</u>
2024	\$ 26,771	\$ 26,129
2025	27,748	25,152
2026	28,761	24,139
2027	29,811	23,089
2028	30,898	22,002
2029 and thereafter	571,938	168,661
	<u>\$715,927</u>	<u>\$ 289,172</u>

Other Leases:

Boeing Lease - In May 2015, the Authority entered into a real estate purchase contract with the County, to purchase land located at Southeast 59th Street and Air Depot Road in Oklahoma City, Oklahoma, at a cost of \$1,348,135. The Authority purchased the land with the intent to lease the property to Boeing for the purpose of expanding Boeing's operations. A lease agreement with Boeing was entered into on June 1, 2015, for a 15-year term and base rent of \$1 per year with the option for Boeing to extend the lease or to purchase the property at the end of the lease term for a base price of \$630,000, which increases by 2% each year during the lease term.

8. RELATED PARTY TRANSACTIONS

Management services for the Authority are provided by the Alliance for the Economic Development of Oklahoma City, Inc., a related party. Total compensation provided under this arrangement was \$300,000 for the year ended June 30, 2023 and is included in professional services in the accompanying statement of revenues, expenses, and changes in net position.

An organization that benefits the County provides economic development services to the Authority. The Authority incurred expenses related to these services totaling \$48,000 which are included in other expenses in the statement of revenues, expenses, and changes in net position.

9. COMMITMENTS AND CONTINGENCIES

From time to time, the Authority is engaged in lawsuits either as plaintiff or defendant that arise in the conduct of its business, which, in the opinion of management and based upon advice of counsel, would not have a material effect on the Authority's financial position or results of operations.

10. SUBSEQUENT EVENTS

On July 1, 2023, approximately 95 acres of the I-240 and Eastern Tract were sold to the master developer for \$2,750,000 resulting in a gain on sale of the underlying asset of \$715,315. The related lease was modified for the remaining leased acres resulting in a gain on partial lease termination of approximately \$30,000. The sales proceeds were submitted to the OCEDT in accordance with the terms of the memorandum of understanding with the Authority.

On August 30, 2023, the Authority was awarded American Rescue Plan Act grant funds by the Oklahoma Water Resources Board not to exceed \$8,000,000 for water and sanitary sewer main extensions. No eligible expenses were incurred during the year ended June 30, 2023.

On September 20, 2023, approximately 25 acres of the I-240 and Eastern Tract were sold to the master developer for \$1,337,388 resulting in a gain on sale of the underlying asset of \$812,125. The related lease was modified for the remaining leased acres resulting in a loss on partial lease termination of approximately \$7,500. The sales proceeds were submitted to the OCEDT in accordance with the terms of the memorandum of understanding with the Authority.

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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

Board of Trustees
Oklahoma Industries Authority
Oklahoma City, Oklahoma

We have audited, in accordance with the 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 Oklahoma Industries Authority (the "Authority"), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 28, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 and significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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

HSPG & ASSOCIATES, PC

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.

HSPG & Associates, P.C.

December 28, 2023