

**Oklahoma City Industrial and
Cultural Facilities Trust**
A Component Unit of the City of Oklahoma City, Oklahoma
Auditor's Reports and Financial Statements
June 30, 2013 and 2012



Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
June 30, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
Oklahoma City Industrial and Cultural Facilities Trust
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Oklahoma City Industrial and Facilities Trust (the Trust), a component unit of the City of Oklahoma City, Oklahoma, which are comprised of the statement of net position as of June 30, 2013, and the 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2013, 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.

Prior Year Audited by Other Auditors

The 2012 financial statements were audited by other auditors and their report thereon, dated December 13, 2012, expressed an unmodified opinion.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2013, on our consideration of the Trust'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 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 Trust's internal control over financial reporting and compliance.

BKD, LLP

Oklahoma City, Oklahoma
December 11, 2013

Oklahoma City Industrial and Cultural Facilities Trust

A Component Unit of the City of Oklahoma City, Oklahoma

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Oklahoma City Industrial and Cultural Facilities Trust (the Trust), a discretely presented component unit of the City of Oklahoma City, Oklahoma, provides an overview of the Trust's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Trust.

Financial Highlights

- Cash and cash equivalents increased in 2013 by \$260,069 and decreased in 2012 by \$318,281.
- The Trust's net position decreased in 2013 and 2012 by \$557,159 and \$585,145, respectively.
- The Trust was advanced \$600,000 in 2013 on its note payable, with no advances in 2012.

Using This Annual Report

The Trust's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Trust. The Trust accounts for its operations as an enterprise fund. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, similar to private business enterprises.

Statement of Net Position

The statement of net position presents the assets, deferred outflows, liabilities, deferred inflows and net position. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the Trust.

From the data presented, readers of the statement of net position are able to determine the assets available to continue the operations of the Trust. They are also able to determine how much the Trust owes vendors and lenders. Finally, the statement of net position provides a picture of the net position and the availability for expenditure by the Trust.

Total assets of the Trust increased by \$12,391 in 2013 compared to a decrease of \$582,209 in 2012. The 2013 increase was primarily a result of additional cash and cash equivalents available as a result of a \$600,000 advance on the note payable to fund the maintenance and operation of the Journal of Record Building for the coming year offset by the negative change in net position.

Total liabilities increased in 2013 by \$569,550 primarily as a result of the advance on the note payable noted above. Total liabilities decreased in 2012 by \$2,936.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expense and changes in net position reports how the Trust's net position changed during the fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. For the years ended June 30, 2013 and 2012, the change in net position was a loss of \$557,159 and \$585,145, respectively. The 2013 loss decreased \$27,986, primarily driven by the decrease in management fees of \$20,000 and professional and trust fees of \$15,433, offset by a reduction in administrative fee revenues. This compares to a loss decrease in 2012 of \$117,862.

Statement of Cash Flows

The statement of cash flows presents detailed information about the cash activity of the Trust during the year. The statement is divided into four sections.

The first section addresses the operating cash flows and shows the net cash provided by or used in the operating activities of the Trust. The second section reflects cash flows from noncapital related financing and shows the additional funding received from the note payable not related to capital asset items. The third section reports the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fourth section reconciles the net cash used in or provided by the operating income or loss reflected in the statement of revenues, expenses and changes in net position. The net increase in cash and cash equivalents was primarily driven by the \$600,000 increase in noncapital financing offset by \$342,942 in cash and cash equivalents used to fund operations.

Economic Factors

The Trust owns and operates the Journal Record Building's commercial unit and adjacent parking lot. A Request for Proposals to purchase and redevelop the properties was issued in December 2012. The Trust is currently negotiating with a conditionally approved developer and expects to sell the commercial unit and parking lot in 2014.

Contacting the Trust's Management

This financial report is designed to provide a general overview of the Trust's finances, comply with finance-related laws and regulations and demonstrate commitment to public accountability. If you have any questions about this report or would like to request additional information, please contact the Trust's general manager at 105 N. Hudson, Suite 101, Oklahoma City, Oklahoma 73102.

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Statements of Net Position
June 30, 2013 and 2012

Assets

	2013	2012
Assets		
Cash and cash equivalents	\$ 876,010	\$ 615,941
Due from trust funds administered	15,000	13,980
Accounts receivable	-	9,136
Note receivable	-	3,011
Prepaid and other	247	-
Building project, net	10,933,663	11,170,461
Total assets	11,824,920	11,812,529

Liabilities and Net Position

Liabilities		
Accounts payable and accrued liabilities	44,237	74,687
Notes payable	4,924,133	4,324,133
Total liabilities	4,968,370	4,398,820
Net Position		
Invested in capital assets, net	6,609,530	6,846,328
Unrestricted	247,020	567,381
Total net position	\$ 6,856,550	\$ 7,413,709

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Interest income	\$ 844	\$ 450
Oil and gas revenue	5,163	6,722
Administrative fees	4,969	19,102
Rental income	173,379	171,562
Other	34	32
Total revenues	184,389	197,868
Operating Expenses		
Contributions	-	100
Professional and trust fees	45,960	61,393
Journal Record Building	379,735	386,528
Utility expense	8,483	9,483
Office expense	10,198	9,559
Parking lot expense	35,374	34,152
Depreciation expense	236,798	236,798
Management fees to the Alliance for Economic Development of Oklahoma City	25,000	45,000
Total expenses	741,548	783,013
Change in Net Position	(557,159)	(585,145)
Net Position, Beginning of Year	7,413,709	7,998,854
Net Position, End of Year	\$ 6,856,550	\$ 7,413,709

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Interest received	\$ 844	\$ 450
Oil and gas revenue	5,163	6,722
Administrative fees and others	13,085	19,102
Rental income	173,413	171,562
Payments to vendors and suppliers	(535,447)	(524,847)
Net cash used in operating activities	(342,942)	(327,011)
Noncapital Financing Activities		
Proceeds from note payable	600,000	-
Investing Activities		
Receipts on note receivable	3,011	8,730
Net Increase (Decrease) in Cash and Cash Equivalents	260,069	(318,281)
Cash and Cash Equivalents, Beginning of Year	615,941	934,222
Cash and Cash Equivalents, End of Year	\$ 876,010	\$ 615,941
Reconciliation of Change in Net Position to Net Cash Used in Operating Activities		
Change in net position	\$ (557,159)	\$ (585,145)
Adjustments to reconcile excess of change in net assets to net cash used in operating activities		
Depreciation expense	236,798	236,798
Increase in accounts receivable	8,116	18,400
Increase (decrease) in accounts payable and accrued liabilities	(30,450)	2,936
Increase (decrease) in prepaid and other	(247)	-
Net cash used in operating activities	\$ (342,942)	\$ (327,011)

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The Oklahoma City Industrial and Cultural Facilities Trust (the Trust) is an Oklahoma public trust and an agency of the State of Oklahoma. The Trust was created on December 15, 1962, to promote the development of industrial, manufacturing, medical, civic, cultural and educational activities of the City of Oklahoma City, Oklahoma (the City) and the State of Oklahoma. The Trust was created under the provisions of Title 60, Oklahoma Statutes and other applicable statutes and laws. The City is the beneficiary of the Trust and will receive all residual trust funds and assets upon termination of the Trust.

Operations

The Trust arranges bond and loan financing through trustee banks to industrial, manufacturing, medical, civic, cultural and educational enterprises located principally in Oklahoma City for the purpose of constructing, purchasing, expanding or otherwise improving the facilities required by such enterprises.

Basis of Accounting

The Trust accounts for its operations as an enterprise fund. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting, similar to private business enterprises. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligible requirements are met. The Trust first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Cash and Cash Equivalents

The Trust considers all highly liquid debt instruments purchased with a maturity of three months or less and money market mutual funds to be cash equivalents. Investments in the Goldman Sachs Financial Government Obligations Fund, included in cash equivalents, totaled \$827,117 and \$601,987 at June 30, 2013 and 2012, respectively.

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Accounts Receivable

Accounts receivable are recorded at the amount management expects to collect from outstanding balances. The Trust provides an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Based on this assessment, no allowance for doubtful accounts was required at June 30, 2013 or 2012.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Trust:

Buildings and improvements	40 years
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Net Position

Net position of the Trust is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Trust, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Trust, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

There was no restricted net positions at June 30, 2013 and 2012.

Administrative Fees

The Trust receives administrative fees from certain projects. Such fees are based upon a percentage of the project's bonds outstanding (1/12th to 1/8th of 1%) or are fixed amounts as determined by the Trust indenture.

Income Taxes

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

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Due from Trust Funds Administered

The Trust was due \$15,000 and \$13,980 at June 30, 2013 and 2012, respectively, from trust funds administered for administrative fees earned.

Note 3: Journal Record Building Project

On March 17, 1998, the Trust entered into an agreement with the City to undertake the acquisition and improvement of the Journal Record Building, which was damaged in the bombing of the Alfred P. Murrah Federal Building on April 19, 1995. The Trust manages the operations of the building, which consists primarily of housing a memorial museum and renting space to other parties.

The required funding for this project was provided by the City through a United States Housing and Urban Development (HUD) Community Development Block Grant. This funding was made in the form of a nonrecourse loan to the Trust and in the form of a grant, which does not require repayment.

The proceeds from the loan are designated to provide for the ongoing operation, maintenance and leasing of the Journal Record Building and ancillary facilities. Subsequent to the original agreement, this loan has been amended multiple times. At June 30, 2012, the loan amount was \$4,324,133. During fiscal year 2013, the loan was amended increasing the total amount on the loan to \$4,924,133. The nonrecourse loan is in the form of a 20-year promissory note, which bears interest at 2% and is secured by a mortgage on the building and is repayable solely from cash flows from the project.

In the event of default under this loan agreement, the primary remedies of the City are to terminate further advances and declare the loan immediately due and commence collection/foreclosure proceedings. Furthermore, the City has agreed to look solely to the Trust's interest in the project as the source of security for payment and will not seek a deficiency or other monetary judgment against the Trust.

The Trust has entered into a lease agreement with the Oklahoma City National Memorial Institute for the Prevention of Terrorism for approximately 18% of the Journal Record Building. The lease term commenced on January 1, 2004, and expires December 31, 2013, with equal monthly installments of \$9,030 over a 10-year period.

The future minimum lease payments to be received are \$54,180 through December 31, 2013.

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Capital assets consist of the following at June 30:

	2013	2012
Building and improvements	\$ 9,471,918	\$ 9,471,918
Less accumulated depreciation	(1,541,521)	(1,304,723)
	7,930,397	8,167,195
Land	3,003,266	3,003,266
	\$ 10,933,663	\$ 11,170,461

Note 4: Note Receivable

On October 15, 2002, the Trust completed the sale of approximately 6% of the Journal Record Building to the Oklahoma City National Memorial Trust for a purchase price of \$71,760. Under the purchase agreement, the Memorial Trust signed a promissory note in the amount of \$71,760, with an interest rate of 5% annually, payable to the Trust in equal monthly installments of \$761 over a 10-year period. At June 30, 2012, the note receivable had an outstanding balance of \$3,011. During 2013, the promissory note was received in full.

Note 5: Conduit Debt Obligations

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

As of June 30, 2013, there were four series of industrial revenue bonds and leasing obligations outstanding with an aggregate principal amount payable of approximately \$40,788,000.

Oklahoma City Industrial and Cultural Facilities Trust
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Financial Statements
June 30, 2013 and 2012

Note 6: Future Changes in Accounting Principles

The Governmental Accounting Standards Board (GASB) recently issued the following statements not yet required to be adopted by the Trust:

GASB Statement No. 66, *Technical Corrections – 2012*, enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. GASB 66 amends both GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will improve accounting and financial reporting of state and local governments that extend and receive nonexchange financial guarantees. Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The provisions of this statement are effective for periods beginning after June 15, 2013, and would be applied retroactively. The Trust has not yet determined the potential impact, if any, this statement could have on its financial statements.

Note 7: Subsequent Events

As of October 8, 2013, the Trust amended their loan agreement with the City to allow for an additional \$500,000 in borrowings. Additionally, all principal and interest amounts owed under the agreement and its amendments were deferred until after December 31, 2014.

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

Board of Trustees
Oklahoma City Industrial and Cultural Facilities Trust
Oklahoma City, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Oklahoma City Industrial and Cultural Facilities Trust (the Trust), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2013, which contains an explanatory paragraph indicating the prior year was audited by other auditors.

Internal Control over Financial Reporting

Management of the Trust is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Trust's 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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
Oklahoma City Industrial and Cultural Facilities Trust

Compliance

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of 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*.

Other Matter

We noted certain matters that we reported to the Trust's management in a separate letter dated December 11, 2013.

The purpose of this communication 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 Trust's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Oklahoma City, Oklahoma
December 11, 2013