# The Oklahoma Development Finance Authority

FINANCIAL STATEMENTS

JUNE 30, 2012

Includes Independent Auditor's
Report Issued By

HBC
CPAs & Advisors

## Management's Discussion and Analysis

## THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

This section of the Oklahoma Development Finance Authority's (the Authority's) annual financial report presents a discussion and analysis of its financial performance for the year ended June 30, 2012. Please read it in conjunction with the financial statements which follow this section. The following table summarizes the financial position and results of operations of the Authority for 2012 and 2011.

| | 2012 | 2011 |
|---|---|---|
| Assets: | | |
| Current assets | $ 18,651,519 | $ 12,132,480 |
| Capital assets | 565,143 | 566,002 |
| Other non-current assets | 1,169,883 | 1,212,883 |
| Total Assets | 20,386,545 | 13,911,365 |
| Liabilities: | | |
| Current liabilities | 5,878,400 | 60,599 |
| Other non-current liabilties | - | - |
| Bonds payable | 9,999,000 | 9,999,000 |
| Total Liabilities | 15,877,400 | 10,059,599 |
| Net Assets: | | |
| Invested in capital assets | 565,143 | 566,002 |
| Unrestricted | 3,944,002 | 3,285,765 |
| Total Net Assets | $ 4,509,145 | $ 3,851,767 |
| Operating Revenues: | | |
| Fee revenue | $ 989,035 | $ 808,582 |
| Interest and Investment income | 154,371 | 160,724 |
| Other | 871,764 | 10,374 |
| Total Operating Revenues | 2,015,170 | 979,680 |
| Operating Expenses: | | |
| Interest expense | 249,975 | 249,975 |
| Other operating expenses | 1,107,817 | 652,087 |
| Total Operating Expenses | 1,357,792 | 902,062 |
| Change in net assets | 657,378 | 77,618 |
| Total net assets, beginning of the year | 3,851,767 | 3,774,149 |
| Total net assets, end of the year | $ 4,509,145 | $ 3,851,767 |

## Management's Discussion and Analysis

## THE OKLAHOMA DEVELOPMENT FINANCE AUTHORITY

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Statement of Net Assets – This statement presents information reflecting the Authority's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement of net assets is categorized as to current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date. The Authority's investment balances are considered current assets, as the Authority has historically experienced a high portfolio turnover rate.

- Statement of Revenues, Expenses and Changes in Net Assets – This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses during the operating year. Major sources of operating revenues are administrative fee income and major sources of operating expenses being personnel and interest expense. The change in net assets for an enterprise fund is similar to net profit or loss for any other business enterprise.

- Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting which reflects cash flows from operating, financial and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the calendar year.

## FINANCIAL HIGHLIGHTS

- The Authority's total assets at June 30, 2012 increased by approximately $6,475,000 primarily due to an intrafund receivable of $5,875,000 in 2012. Cash increased by approximately $916,000 while investments and fees receivable decreased by approximately $275,000. Other assets decreased approximately $43,000.

- Total liabilities increased approximately $5,817,000 for the year, again primarily due to an intrafund payable of $5,875,000.

- The increase in total operating revenues of approximately $168,000 in 2012 was mostly due to an increase in fee revenue, which amounted to approximately $180,000.

- Operating expenses increased approximately $455,000 in 2012. Most of the increase was attributable to a $278,000 charge to bad debt expense by increasing the allowance for uncollectible notes receivable in 2012.

- Total net assets increased by approximately $657,000 from 2011 to 2012. The primary factors contributing to this increase were settlement fees revenues of $860,419 which increased net assets, less increases to the allowance for uncollectible notes receivable of $278,000, which decreased net assets.

## CAPITAL ASSETS

As of June 30, 2011, the Authority had approximately $862,000 invested in capital assets, including land, buildings, automobiles, furniture and equipment. The Authority's capital assets, net of accumulated depreciation, total approximately $565,000 at June 30, 2012. The Authority had no major capital asset purchases during 2012.

## DEBT ADMINISTRATION

The Authority has $9,999,000 of outstanding debt at June 30, 2012. The bonds are related to the Oklahoma Quality Jobs Investment Program, a designated fund within the Authority.

## CONTACTING THE AUTHORITY'S MANAGEMENT

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

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Oklahoma Development Finance Authority

We have audited the statement of net assets of Oklahoma Development Finance Authority ("Authority"), component unit of the state of Oklahoma, as of June 30, 2012, and the statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Oklahoma Development Finance Authority's management. 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 *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oklahoma Development Finance Authority as of June 30, 2012, and the respective results of operations and respective cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2012 on our consideration of the Oklahoma Development Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.



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

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority as a whole. The schedules of net assets and schedules of revenues, expenses and change in net assets (pages 14-17) are presented for purposes of additional analysis and are not a required part of the financial statements. The schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HBC CPAs & Advisors

October 19, 2012



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OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | Primary Government | Component Unit Credit Enhancement Reserve Fund |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 11,267,354 | $ 1,179,109 |
| Interest receivable | 4,791 | - |
| Fees receivable and other current assets | 463,632 | - |
| Intrafund receivables | 5,875,000 | - |
| Investments | 1,040,742 | - |
| Total current assets | 18,651,519 | 1,179,109 |
| Noncurrent assets: | | |
| Notes receivable, net of allowance for uncollectible loans of $762,276 | 1,169,883 | - |
| Capital assets, net of accumulated depreciation of $297,202 | 565,143 | - |
| Total noncurrent assets | 1,735,026 | - |
| Total assets | 20,386,545 | 1,179,109 |
| **Liabilities** | | |
| Current liabilities | | |
| Accrued payroll taxes | 3,400 | - |
| Intrafund payables | 5,875,000 | - |
| Total current liabilities | 5,878,400 | - |
| Noncurrent Liabilities | | |
| Bonds payable | 9,999,000 | - |
| Deferred revenue | - | 220,715 |
| Total noncurrent liabilities | 9,999,000 | 220,715 |
| Total liabilities | 15,877,400 | 220,715 |
| **Net Assets** | | |
| Invested in capital assets | 565,143 | - |
| Unrestricted | 3,944,002 | 958,394 |
| Total net assets | $ 4,509,145 | $ 958,394 |

See accompanying notes.

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

| | Primary Government | Component Unit Credit Enhancement Reserve Fund |
|---|---|---|
| Operating revenues: | | |
| Fee revenue | $ 989,035 | $ - |
| Insurance premiums | 3,336 | 21,410 |
| Interest and investment income | 154,371 | 61 |
| Other | 1,801 | 51,371 |
| Total operating revenues | 1,148,543 | 72,842 |
| Operating expenses: | | |
| Personnel services | 626,449 | - |
| Professional services | 65,982 | - |
| Administrative | 387,350 | 3,500 |
| Program expenses | 1,800 | - |
| Depreciation | 26,236 | - |
| Interest expense | 249,975 | - |
| Total operating expenses | 1,357,792 | 3,500 |
| Operating income (loss) | (209,249) | 69,342 |
| Other income (expense): | | |
| Gain (loss) on disposition of assets | 6,208 | - |
| Settlement proceeds | 860,419 | - |
| Total other income (expense) | 866,627 | - |
| Net assets, beginning of year | 3,851,767 | 889,052 |
| Net assets, end of year | $ 4,509,145 | $ 958,394 |

See accompanying notes.

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

| | Total Primary Government | Component Unit Credit Enhancement Reserve Fund |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received for fees and insurance premiums | $ 1,039,277 | $ 17,922 |
| Cash paid to suppliers and employees | (1,134,503) | (3,500) |
| Interest and investment income received on investments | 177,327 | - |
| Interest paid on debt | (249,975) | - |
| Net cash provided by operating activities | (167,874) | 14,422 |
| **Cash flows from capital and related financing activities:** | | |
| Disposition of capital assets | 6,208 | - |
| Acquisition of capital assets | (25,377) | - |
| Net cash used in capital and related financing activities | (19,169) | - |
| **Cash flows from investing activities:** | | |
| Settlement proceeds | 860,419 | - |
| Investment activities | 200,206 | - |
| Payments received on notes receivable | 43,000 | - |
| Net cash used provided by (used In) investing activities | 1,103,625 | - |
| Net increase in cash and cash equivalents | 916,582 | 14,422 |
| Cash and cash equivalents, beginning of year | 10,350,772 | 1,164,687 |
| Cash and cash equivalents, end of year | $ 11,267,354 | $ 1,179,109 |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income (loss) | $ (209,249) | $ 69,342 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 26,236 | - |
| Change in assets and liabilities: | | |
| Fees receivable and other current assets | 49,381 | - |
| Interest receivable | 22,956 | 10 |
| Accounts payable | (57,198) | (54,930) |
| Net cash provided by operating activities | $ (167,874) | $ 14,422 |

See accompanying notes.

## NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Fund administers the following program:

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

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

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

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

Use of Estimates: Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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

Fees Receivable and Other Current Assets: The majority of the fees receivable and other current assets consist of fees receivable. Fees receivable include amounts billed for administrative fees as of June 30, 2012. Fees receivable are accrued based on the annual fee as stipulated in the various bond indentures.

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

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

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

NOTE B-DEPOSITS AND INVESTMENTS

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

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

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

The Authority's and the Fund's deposits and investments consisted of the following at June 30, 2012:

| Type | Carrying value | |
|---|---|---|
| | Authority | Fund |
| Cash and cash equivalents | | |
| Demand deposits | $ 242,321 | $ - |
| Money market mutual funds | 11,025,033 | 1,179,109 |
| | $ 11,267,354 | $ 1,179,109 |
| Investments | | |
| SBA loan pools | 1,040,742 | - |
| | $ 1,040,742 | $ - |

## NOTE B-DEPOSITS AND INVESTMENTS (Continued)

Deposits: At June 30, 2012, the bank balances of the Authority's and the Fund's cash deposits were $11,267,354 and $1,179,109, respectively. Bank balances were covered by Federal Deposit Insurance or were deposited in cash funds indirectly invested in U.S. Treasury securities and backed by the full faith and credit of the U.S. Government.

Investments: The Authority's investments in SBA Loan Pools of $1,040,742 are not evidenced by securities; therefore, these investments are not subject to risk categorization.

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| Investment type | Fair Value | Less than one | One to Five | Six to Ten | More than Ten |
| Authority SBA Loan Pools | $ 1,040,742 | | 115,128 | 290,639 | 634,975 |
| | $ 1,040,742 | $ - | $ 115,128 | $ 290,639 | $ 634,975 |

## NOTE C-NOTES RECEIVABLE

At June 30, 2012, the Authority's Quality Job Investment Program has various notes receivable from four entities, net of allowance, totaling $1,169,183. The notes bear interest at variable interest rates ranging from the national prime rate to national prime plus 300 basis points. Interest is compounded monthly, quarterly or annually, as defined in each note agreement. The notes mature January 2009 to October 2014 and are unsecured.

## NOTE D-CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

| | July 1, 2011 | Additions | Reductions | June 30, 2012 |
|---|---|---|---|---|
| Land | $ 100,000 | - | - | $ 100,000 |
| Buildings | 563,185 | - | - | 563,185 |
| Automobiles | 99,140 | 36,500 | 26,091 | 109,549 |
| Furniture and equipment | 82,809 | 10,710 | 3,907 | 89,612 |
| | 845,134 | 47,210 | 29,998 | 862,346 |
| Accumulated depreciation | (279,132) | (40,677) | 22,606 | (297,203) |
| | $ 566,002 | $ 6,533 | $ 52,604 | $ 565,143 |

Depreciation is calculated using the straight-line method over estimated useful lives as follows: Bulidings-39 years; Automobiles-5 years; Furniture and equipment-5 years.

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

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

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

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

## NOTE F-THE OKLAHOMA CREDIT ENHANCEMENT RESERVE FUND

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

As of June 30, 2012, there were approximately $46 million of outstanding financial obligations insured by the Fund. The Authority has accrued a reserve for losses of approximately $762,276 as of June 30, 2012, to cover potential losses from the outstanding financial obligations insured by the Fund. Through June 30, 2012, Oklahoma Credit Enhancement Reserve Fund General Obligation Bonds have not been issued since it is the intention of the Authority to utilize existing assets to meet obligations arising from losses reserved by the Fund.

## NOTE G-TAX-EXEMPT GUARANTY POOL

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

At June 30, 2012, there were approximately $3.5 million of outstanding financial obligations insured by the Pool. All obligations are making payments in a timely manner.

## NOTE H-RELATED PARTIES

The Authority has a month-to-month agreement whereby OIFA provides staff support and administrative services and the Authority reimburses OIFA for its proportionate share of OIFA employees' salaries, benefits, taxes, and other costs. The Authority paid OIFA approximately $427,000 during the year ended June 30, 2012 for these services. Beginning January 1, 2012, the President of the Authority retired as a state employee working under OIFA's umbrella. At that time he became an employee of the Authority, and OIFA began reimbursing the Authority $4,000 per month for services he provides to OIFA.

OIFA granted the Authority the right to participate in OIFA's investment pool at an agreed upon guaranteed return. The investment pool consists primarily of SBA loans. The Authority withdrew its investment in the OIFA funds June 28, 2012, and deposited the proceeds in its General Fund accounts, including TEGP invested funds of $600,000 and QJIP invested funds of $5,275,000. The amounts due to and from the funds within the Authority are shown as intra fund receivables and payables on the statement of net assets.

## NOTE I-LEASE AGREEMENTS

The Authority leased a portion of its office space to the OIFA and the State Bond Advisor. Rental income from leases for the year ended June 30, 2012, was approximately $37,000.

## NOTE J-BONDS PAYABLE

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

Revenue bonds outstanding at June 30, 2012, are as follows:

| | |
|---|---|
| Oklahoma Development Finance Authority Oklahoma Quality Jobs Investment Program Revenue Bond, Series 1996, due April 1, 2031 | $9,999,000 |

The registered owner of the bonds is the OIFA, a related party. There were no additions or retirements of revenue bonds during the year ended June 30, 2012. The original maturity date of the bond was April 1, 2006. However, on April 1, 2006 the Authority and OIFA signed an agreement to extend the maturity date to April 1, 2031.

Interest rates are variable with payments due quarterly with principal and all unpaid interest due at maturity. The variable rate of interest is equal to the OIFA's cost of funds on its outstanding variable rate bond issues. The interest rate at June 30, 2012 was 2.5%.

The bonds are payable solely from and secured by (1) revenues derived by the Quality Job Investment Program from loan repayments, (2) funds in the Quality job Investment Program fund

## NOTE J-BONDS PAYABLE (Continued)

established by the Authority to support this bond and (3) a Credit Enhancement Reserve Fund guarantee insurance policy issued to the Oklahoma Industrial Finance Authority.

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

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

| June 30, | Principal | Interest |
|---|---|---|
| 2013 | - | 249,975 |
| 2014 | - | 249,975 |
| 2015 | - | 249,975 |
| 2016 | - | 249,975 |
| 2017 | - | 249,975 |
| 2018-2022 | - | 1,249,875 |
| 2023-2027 | - | 1,249,875 |
| 2028-2031 | 9,999,000 | 937,406 |
| Total | $ 9,999,000 | $ 4,687,031 |

Interest requirements for the variable rate debt were determined by using the rate in effect at June 30, 2012.

## NOTE K-EXTRAORDINARY ITEM

The Authority received a settlement of $860,419 as a result of a civil suit brought by the Securities and Exchange Commission against J.P. Morgan Securities LLC.

## NOTE L-SUBSEQUENT EVENT

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

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF NET ASSETS-TAX EXEMPT GUARANTY POOL
JUNE 30, 2012

| | | |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ | 63,933 |
| Intrafund receivable | | 600,000 |
| Investments | | 66,120 |
| Total assets | | 730,053 |
| Liabilities | | - |
| Net Assets | $ | 730,053 |

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS-
TAX EXEMPT GUARANTY POOL
YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| Operating revenues: | |
| Fee revenue | $ 3,336 |
| Investment income | 9,749 |
| Total operating revenues | 13,085 |
| Operating expenses: | |
| Guaranty obligation | 38,042 |
| Interfund transfer | 2,293 |
| Total operating expenses | 40,335 |
| Change in net assets | (27,250) |
| Net assets, beginning of year | 757,303 |
| Net assets, end of year | $ 730,053 |

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF NET ASSETS-QUALITY JOBS INVESTMENT PROGRAM
JUNE 30, 2012

| | | |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ | 201,307 |
| Interest receivable | | 4,792 |
| Notes receivable | | 1,169,883 |
| Intrafund receivable | | 5,275,000 |
| Investments | | 974,622 |
| | | 7,625,604 |
| Liabilities: | | |
| Bonds payable | | 9,999,000 |
| | | 9,999,000 |
| Deficiency in Net Assets | $ | (2,373,396) |

OKLAHOMA DEVELOPMENT FINANCE AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
QUALITY JOBS INVESTMENT PROGRAM
YEAR ENDED JUNE 30, 2012

| | |
|---|---|
| Operating revenues: | |
| Investment income | $ 89,308 |
| Total operating revenues | 89,308 |
| Operating expenses: | |
| Professional services | 3,801 |
| Interest expense | 249,975 |
| Management expense | 6,000 |
| Other | 278,183 |
| Total operating expenses | 537,959 |
| Change in net assets | (448,651) |
| Deficiency in net assets, beginning of year | (1,924,745) |
| Deficiency in net assets, end of year | $ (2,373,396) |

HBC CPAs & Advisors

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

To the Board of Trustees
Oklahoma Development Finance Authority

We have audited the financial statements of the Oklahoma Development Finance Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. We have 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oklahoma Development Finance Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Oklahoma Development Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Oklahoma Development Finance Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether Oklahoma Development Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

HBC CPAs + Advisors

October 19, 2012



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