Oklahoma Industries Authority

Independent Auditor's Report and Financial Statements

June 30, 2020

BKD
CPAs & Advisors

Oklahoma Industries Authority

June 30, 2020

Contents

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Independent Auditor's Report

Board of Trustees
Oklahoma Industries Authority
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of the Oklahoma Industries Authority (the Authority), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 Authority as of June 30, 2020, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2019 financial statements, before they were restated for the matters discussed in *Note 2*, were audited by other auditors, and their report thereon, dated October 30, 2019, expressed an unmodified opinion. Our opinion is not modified with respect to these matters.

Other Matters

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 also have issued our report dated December 30, 2020, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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.

BKD, LLP

Oklahoma City, Oklahoma
December 30, 2020

Oklahoma Industries Authority

Statement of Net Position

June 30, 2020

Assets and Deferred Outflows of Resources

Current Assets	
Cash and cash equivalents	$ 2,589,791
Investments	4,090,637
Prepaid insurance	97,827
Accounts receivable	35,542
Accrued interest receivable	1,761
Total current assets	6,815,558
Capital Assets	
Land	2,461,108
Building – MROTC	28,482,739
Industrial property	2,801,807
	33,745,654
Less accumulated depreciation	(8,611,439)
Total capital assets, net	25,134,215
Total assets	31,949,773
Deferred Outflows of Resources	
Deferred loss on debt refunding	764,830
Total assets and deferred outflows of resources	32,714,603

Liabilities and Net Position

Current Liabilities	
Accounts payable and accrued liabilities	117,830
Unearned revenues	531,403
Current portion of loan payable – MROTC project	1,555,852
Total current liabilities	2,205,085
Noncurrent Liabilities	
Loan payable – MROTC project	6,848,839
Total liabilities	9,053,924
Net Position	
Net investment in capital assets	17,494,354
Unrestricted	6,166,325
Total net position	$ 23,660,679

Oklahoma Industries Authority

Statement of Revenues, Expenses, and Changes in Net Position, as Restated (See *Note 2*)

Year Ended June 30, 2020

Operating Revenues	
Lease rentals	$ 247,201
Administrative fees	57,264
MROTC revenue	2,639,264
Other revenue	40,881
Total operating revenues	2,984,610
Operating Expenses	
Depreciation	616,173
Insurance	8,982
Professional services	505,074
Management and trustee fees	83,627
Printing and office supplies	715
Interest	575,608
Other	2,612
Grant expense	37,848
Repair and maintenance – unit parts	8,353
Total operating expenses	1,838,992
Operating Income	1,145,618
Nonoperating Revenues (Expenses)	
Investment interest income	132,097
Unrealized gain on investments	46,308
Bad debt expense	(49,356)
Amortization of deferred outflows	(1,231,390)
Equity in earnings of investee	309,214
Distributions for the benefit of other government	(48,000)
Total nonoperating revenues (expenses)	(841,127)
Change in Net Position	304,491
Net Position, Beginning of Year, as Restated (*Note 2*)	23,356,188
Net Position, End of Year	$ 23,660,679

Oklahoma Industries Authority
Statement of Cash Flows, as Restated (See *Note 2*)
Year Ended June 30, 2020

Operating Activities	
Lease rental payment received	$ 247,201
Administrative fees received	57,264
Grant, MROTC, and other revenue received	2,748,897
Operating expenses paid	(1,157,254)
Net cash provided by operating activities	1,896,108
Noncapital Financing Activities	
Distributions and return of funds due to other trusts	(48,000)
Net cash used in noncapital financing activities	(48,000)
Capital and Related Financing Activities	
MROTC loan payments	(2,067,647)
Purchase of capital assets	(2,070,000)
Proceeds on dispostion of capital assets	2,070,000
Net cash used in capital and related financing activities	(2,067,647)
Investing Activities	
Proceeds from sales of investments	2,000,000
Purchases of investments	(1,750,000)
Distribution received from equity investee	549,605
Interest received on investments	133,064
Net cash provided by investing activities	932,669
Increase in Cash and Cash Equivalents	713,130
Cash and Cash Equivalents, Beginning of Year, as Restated (*Note 2)*	1,876,661
Cash and Cash Equivalents, End of Year	$ 2,589,791

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	$	1,145,618
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		616,173
Expenses incurred in loan refinancing		87,150
Increase in prepaid insurance		(90,403)
Increase in accounts receivable and other		(18,400)
Increase in accounts payable and accrued liabilities		68,818
Increase in unearned revenue		87,152
Net cash provided by operating activities	$	1,896,108

Noncash Transactions

Unrealized gain on investments	$	46,308
Equity in earnings of investee	$	309,214
Bad debt expense	$	(49,356)
Amortization of deferred outflows – debt defeasance	$	(1,231,390)
Land acquired in exchange	$	2,070,000
Land disposed in exchange	$	(2,070,000)

Note 1: Nature of Operations and Summary of 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 under the provisions of Title 60, Section 176 of the Oklahoma Statutes, and other applicable statutes and laws. Oklahoma County, Oklahoma (the County) is the beneficiary of this trust and will receive all residual trust funds and assets upon termination of the trust.

The Authority established Next Generation Oklahoma Aeronautics LLC (NextGen) as a wholly owned subsidiary in 2018 to purchase a 100% equity interest in MROTC Holdings, LLC (Holdings) which owns a 100% interest in MROTC Development Partners, LLC (MDP). NextGen holds no assets other than its ownership of Holdings units, and Holdings holds no assets other than its ownership of MDP units. In preparing the financial statements, all significant transactions and balances between the Authority and NextGen are eliminated. As discussed in *Note 9*, in June 2020, all balances of NextGen were contributed toward a restructuring of the MROTC project activities. As such, the Authority's equity interest in NextGen is $0 at June 30, 2020, in the accompanying statement of net position.

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

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.

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. At June 30, 2020, cash equivalents consisted primarily of money market accounts with brokers.

Investments and investment income

Investments in negotiable certificates of deposit and municipal obligations 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 carried at fair value.

The Authority's historical investment in NextGen was accounted for in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This investment was valued using the equity method and changes in the equity valuation are reported as equity in earnings of investee in the accompanying statement of revenues, expenses, and changes in net position. As of June 30, 2020, in accordance with the MROTC transaction discussed in *Note 9*, the investment in NextGen is zero.

Unearned Revenue

The Authority maintains cash provided by the Oklahoma Strategic Military Planning Commission, State of Oklahoma Department of Commerce for future maintenance and other projects related to the Maintenance, Repair, and Overhaul Technology Center (MROTC). Such amounts are reported as unearned revenue until such time that funds are expended resulting in grant revenue in the period in which all eligibility requirements associated for recognition of these funds are met. During the current year, the Authority received $125,000, which is included in unearned revenue and recognized $37,848 as grant revenue in the accompanying financial statements.

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, 2020, deferred outflows of resources consisted of deferred loss on debt refunding.

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 2020.

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. For the year ended June 30, 2020, there was no restricted portion of net position.
- **Unrestricted –** Residual amount of net position that does not meet the definition of net investment in capital assets or restricted net position. Included within unrestricted net position at June 30, 2020, are funds designated by the board for projects and activities benefiting the State of Oklahoma and the County of $975,325. For the year ended June 30, 2020, approximately $48,000 of the designated assets and their investment earnings were contributed to an organization that benefits the County and have been reported as distributions.

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.

Note 2: Restatement of Prior Year Financial Statements

The 2020 beginning balance of net position has been restated by $2,106,661 to correct an error in the recognition of revenue related to federal grant funds received in prior years for which eligible expenditures were also incurred in prior years. This restatement reduced previously reported 2019 change in net position by $54,017. Additionally, the 2020 beginning of year cash and cash equivalents on the accompanying statement of cash flows has been restated by $658,690 to correct an error in excluding balances of cash and cash equivalents in the prior year, which had no impact on previously reported 2019 change in net position.

The following financial statement line items for fiscal year 2019 were affected by this correction:

	As Restated	As Previously Reported	Effect of Change
Total net position, beginning of year	$ 23,356,188	$ 21,249,527	$ 2,106,661
Cash and cash equivalents, beginning of year	$ 1,876,661	$ 1,217,971	$ 658,690

Note 3: 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 investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority, or are held by a counterparty or the counterparty's trust department but not in the name of the Authority.

The policy of the Authority is to require all deposits be maintained in accounts that are fully insured or collateralized. As of June 30, 2020, the Authority had no uninsured or uncollateralized deposits. At June 30, 2020, all deposits 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.

Deposits of the Authority were $2,589,791 at June 30, 2020.

Investments

The Authority has adopted the provisions of Oklahoma State Statue 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, 2020, the Authority had the following investments:

	Fair Value	Fiscal Year Maturity Date 2021	2022	2023
Certificates of deposit	$ 3,815,047	$ 2,021,390	$ 765,615	$ 1,028,042
Municipal obligations	275,590	-	275,590	-
		$ 2,021,390	$ 1,041,205	$ 1,028,042
Total investments	$ 4,090,637			

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 investment 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 counterparty or the counterpart's trust department but not in the name of the Authority. At June 30, 2020, the Authority does not have any securities that are not registered in the name of the Authority.

Note 4: Note Receivable

During 2017, the Authority entered into a loan agreement with Progress OKC to finance the audiovisual and stage equipment for a historical auditorium and related facilities. Interest on the note receivable (effective rate of 3.00% at June 30, 2017) was payable monthly and principal was due upon maturity on February 7, 2019. Having previously determined the note receivable to be partially uncollectible, the balance was reduced to $49,356 at June 30, 2019. During 2020, the Authority determined the remaining balance of the note receivable was uncollectible and wrote off the remaining balance. There was a net of write-off of $49,356 at June 30, 2020, charged to bad debt expense.

Note 5: 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, 2020:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Municipal obligations	$ 275,590	$ -	$ 275,590	$ -
Certificates of deposit	3,815,047	-	3,815,047	-
Total investments	$ 4,090,637	$ -	$ 4,090,637	$ -

Municipal obligations and 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.

Note 6: Capital Assets

Capital assets at June 30 consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 2,461,108	$ 2,070,000	$ (2,070,000)	$ 2,461,108
Industrial property	2,801,807	-	-	2,801,807
Building – MROTC	28,482,739	-	-	28,482,739
	31,284,546	-	-	31,284,546
Less accumulated depreciation	(7,995,266)	(616,173)	-	(8,611,439)
Depreciable capital assets, net	23,289,280	(616,173)	-	22,673,107
Total capital assets, net	$ 25,750,388	$ 1,453,827	$ (2,070,000)	$ 25,134,215

During the year ended June 30, 2020, the Authority purchased land within the County for the purpose of exchanging with an agency of the State of Oklahoma. The land was purchased for $2,070,000 and was exchanged for a separate land parcel appraised for the same value and held by the agency of the State of Oklahoma. Once the land exchange was complete, the Authority sold the property to the City of Oklahoma City for $2,070,000. These transactions are included within the accompanying statement of cash flows as both cash and noncash transactions for the current year.

Note 7: 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, 2020, there were eight series of industrial revenue bonds outstanding with an aggregate principal amount payable of $63,697,250.

Note 8: Long-Term Obligations

The following is a summary of long-term debt for the year ended June 30, 2020:

	Balance, July 1, 2019	Additions	Reductions	Balance, June 30, 2020	Amounts Due/ Amortization Within One Year
MROTC loan payable	$ 10,152,872	$ -	$ (10,152,872)	$ -	$ -
Loan payable – MROTC project	-	8,404,691	-	8,404,691	1,555,852
Total	$ 10,152,872	$ 8,404,691	$ (10,152,872)	$ 8,404,691	$ 1,555,852

MROTC Loan Payable

Upon completion of the construction of the MROTC facility in 2009, the construction loan used during the construction period was converted to a long-term loan payable in the form of a lease-back mortgage. The loan carried an interest rate of 6.04% with monthly payments of $218,688 and a final payment of $438,689 due at maturity on October 14, 2023. The loan was repaid with the restructuring described in *Note 9.*

Loan Payable – MROTC Project

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. At the time of the transaction, the remaining principal was $8,085,225. 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, 2020:

	Principal	Interest	Total
2021	$ 1,555,852	$ 296,300	$ 1,852,152
2022	1,617,833	235,293	1,853,126
2023	1,681,230	171,895	1,853,125
2024	1,747,112	106,014	1,853,126
2025	1,802,664	37,550	1,840,214
	$ 8,404,691	$ 847,052	$ 9,251,743

Deferred Loss on Debt Refunding

The current refunding of the MROTC loan payable resulted in a difference between the payoff and the net carrying amount of $764,830. This difference, reported in the accompanying financial statements as a deferred outflow of resources, will be charged to nonoperating expense, interest expense, using the effective-interest method with amortization beginning in 2021. The Authority completed the current refunding to reduce its annual debt service payments. The refunding results in an increase in total debt service payments over the next five years by $284,235. The current refunding resulted in an increase between the present value of the old and new debt service payments of $130,139 over the next five years.

Note 9: Acquisition of MDP and MROTC Project Transactions

In 2005, the Authority entered into an agreement with Boeing Company (Boeing) and MROTC Development Partners LLC (MDP) to provide for the construction of a 156,254-square-foot MROTC facility near Tinker Air Force Base for maintenance and repair of airplanes, which was completed in 2009. The total project cost approximately $28 million. Initial financing for the project was provided by a bank construction loan and two Federal EDI-Special Project Grants.

In 2018, the Authority acquired a 100% equity interest in MDP through its wholly owned subsidiary NextGen. The acquisition was accounted for as an equity method investment and resulted in a deferred outflow of resources for the future benefit of lease revenue. The Authority paid $2,031,914 for the equity of MDP and recorded an equity investment of $462,494 and a deferred outflow of $1,569,420 at the date of acquisition.

In 2020, in an effort to streamline processes and accounting related to these matters, the Authority renegotiated the lease agreements in the Authority's name concurrent with the completion of the retirement of the MROTC loan payable and entrance into a new debt agreement as outlined in *Note 8*. The Authority terminated all lease agreements between NextGen and Boeing and Tinker Air Force Base in addition to terminating the original 2005 agreement between the Authority and MDP, which was operating as NextGen throughout the current fiscal year.

As a result of the termination of the agreements between NextGen and others, the balance of the equity interest at the completion of these new agreements, $532,513, and all assets of NextGen were utilized toward entrance into the Authority's new debt agreement, which reduced the Authority's equity investment to zero. Additionally, the remaining unamortized balance of the deferred outflow of $941,650 was reduced to zero. Total amortization expense of $1,231,390 related to the deferred outflows stemming from the 2018 acquisition of MDP is reported as a nonoperating expense in the accompanying statement of revenues, expenses, and changes in net position.

Note 10: Leases

In May 2015, the Authority entered into a real estate purchase contract with the County, a related party, to purchase the 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.

The Authority entered into an agreement as the lessor to lease a building for five years, beginning in March 2011, for $16,958 per month. An amendment was created to extend the lease for a period of five years, commencing on December 20, 2015, and increasing rent payments to $18,600 per month. Future minimum lease payments related to this agreement are $111,600. Subsequent to year-end, it was determined the lease would not be renewed following its termination in December 2020.

The MROTC facility has been leased by NextGen and is subleased to the U.S. Air Force. The lease term began August 14, 2008 and ends on October 14, 2058. The amount of the MDP lease includes an amount equal to the debt service plus an annual administrative fee. As discussed in *Note 9,* as of June 2020, this lease agreement has been terminated.

Effective June 30, 2020, the new lease agreement between the Authority and Boeing commenced. The lease term is for one year, terminating on June 29, 2021, with four additional one-year renewal periods available by providing notice within 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 $2,376,303 to be paid annually. In addition, the Authority agrees to provide security for the premises for an additional $30,000 per month for a total of $360,000 per year.

Note 11: Related-Party Transactions

The Authority distributes $48,000 annually to an organization that benefits the County, which have been reported as distributions.

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 $270,000 for the year ended June 30, 2020, and is included in professional services in the accompanying statement of revenues, expenses, and changes in net position.

Oklahoma Industries Authority

Notes to Financial Statements

June 30, 2020

Note 12: 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.

Note 13: Subsequent Events

In October and November 2020, the Authority entered into agreements to purchase the following real property in the vicinity of Tinker Air Force Base: October 2020, Delp Family Revocable Living Trust Property for $400,000 and November 2020, Symes Property for $300,000.

In December 2020, the Authority entered into an agreement to sell a building, land, and surrounding parking lot for $500,000 to OU Medicine, Inc., an Oklahoma nonprofit corporation.

In December 2020, the County authorized and provided $20,050,000 in funding originally received by the County under the *Coronavirus Aid, Relief, and Economic Security Act* to the Authority for the purpose of administering programs designed to provide assistance to small businesses, not-for-profits, and other entities within the County.

In December 2020, the Authority signed a letter of intent with the Office of Land Commission, an agency of the State of Oklahoma, to exchange property for the purpose of developing a 600-acre industrial park within the County. The total value of the intended property exchange is $13 million with funding to be provided by the City of Oklahoma City toward the purchase of land and other real estate valued commensurate with the value of the land to be received in exchange.

Subsequent events have been evaluated through December 30, 2020, which is the date the financial statements were available to be issued.

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*

Independent Auditor's Report

Board of Trustees
Oklahoma Industries Authority
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 Oklahoma Industries Authority (the Authority), which comprise the statement of net position as of June 30, 2020, 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 30, 2020, which contained an *Emphasis of Matter* paragraph regarding a restatement of previously issued financial statements and an *Other Matter* paragraph regarding omission of required supplementary information.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be a material weakness.

Board of Trustees
Oklahoma Industries Authority

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 tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

BKD, LLP

Oklahoma City, Oklahoma
December 30, 2020

Oklahoma Industries Authority
Schedule of Findings and Responses
Year Ended June 30, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2020-001	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – During the current year, a restatement of the beginning of the year net position and beginning of the year cash and cash equivalents on the statement of cash flows was necessary to conform to accounting principles generally accepted in the United States of America (GAAP).

Context – Timely and accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.

Effect – Previously issued financial statements contained material misstatements that were not prevented or detected in a timely manner.

Cause – Based on guidance previously provided to the Authority, federal grant funding received and expended in prior years was incorrectly deferred for revenue recognition resulting in revenues not being recognized in the appropriate period. Additionally, a portion of cash and cash equivalents were excluded from the balances reported in the statement of cash flows.

Recommendation – We recommend management develop and implement processes and procedures to periodically assess whether GAAP is being appropriately applied to the annual financial statements.

Views of Responsible Officials and Planned Corrective Actions – Management agrees with the entries made to adjust opening balances associated with 2006 unearned grant revenues and reporting of cash and cash equivalents, which as adjusted decreases the Authority's liabilities and increases its net position. This adjustment arose from the reclassification of grant income from a transaction recorded in 2006 based on guidance received from prior Authority auditors, which pre-dates the Authority's current management. In addition, certain cash and cash equivalents were not included in the statement of cash flows based on the approach of prior Authority auditors. In future transactions, the Authority will apply the guidance associated with this adjustment and, moreover, will vigorously review and apply GAAP in non-routine transactions. In our view, this adjustment results in a positive operating indicator for the Authority; consequently, users of the Authority's financial statements were unlikely to have been negatively impacted by prior accounting treatment.