Oklahoma City Redevelopment Authority

A Component Unit of the City of Oklahoma City, Oklahoma

Auditor's Reports and Financial Statements

June 30, 2013

BKD LLP
CPAs & Advisors

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
June 30, 2013

Contents

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Independent Auditor's Report

Board of Trustees
Oklahoma City Redevelopment Authority
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major funds of Oklahoma City Redevelopment Authority (the Authority), a component unit of the City of Oklahoma City, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis information 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 Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 6, 2013

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Statement of Net Position
June 30, 2013

Assets

Current Assets	
Cash and cash equivalents	$ 5,190,139
Investments, at fair value	4,168,000
Due from other governments	6,358
Rent receivable	395,463
Interest receivable	26,635
Investment income receivable	13,475
Total current assets	9,800,070
Capital Assets	
Land	506,891
Building, parking garages and undivided ownership interest in bulidings, net	18,771,167
Total capital assets	19,278,058
Other Noncurrent Assets	
Investments, at fair value	3,920,000
Notes receivable	10,654,000
Other assets – deposits	300,000
Total other noncurrent assets	14,874,000
Total assets	$ 43,952,128

Liabilities

Curent Liabilities		
Accounts payable	$	35,029
Curent portion of long-term debt		2,048,833
Due to Urban Renewal		24,496
Advance PILOT payment		250,000
Total current liabilities		2,358,358
Noncurrent Liabilities		
Long-term debt, less current maturities		17,566,861
Total noncurrent liabilities		17,566,861
Total liabilities	$	19,925,219

Net Position

Net investment in capital assets		1,979,178
Restricted for debt service		2,289,707
Restricted for Economic Development activities		19,758,024
Total net position	$	24,026,909

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Statement of Activities
Year Ended June 30, 2013

	Expenses	Revenues: Charges for Services	Revenues: Capital Grants and Contributions	Revenues: Operating Grants, Contributions and Restricted Interest	Net (Expenses) Revenues
Governmental Activities					
Economic development	$ (1,160,438)	$ 1,239,724	$ -	$ 380,845	$ 460,131
Interest expense	(298,534)	-	-	-	(298,534)
Total governmental activities	(1,458,972)	1,239,724	-	380,845	161,597
General Revenues					
Apportioned TIF 1 ad valorem taxes					2,821,750
Total general revenues					2,821,750
Change in Net Position					2,983,347
Net Position, Beginning of Year					21,043,562
Net Position, Ending of Year					$ 24,026,909

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2013

Assets

	TIF 1	Skirvin Hotel Project	Total Governmental Funds
Cash and cash equivalents	$ 4,803,710	$ 386,429	$ 5,190,139
Investments, at fair value	2,695,000	5,393,000	8,088,000
Rent receivable	129,313	266,150	395,463
Interest receivable	-	26,635	26,635
Investment income receivable	6,942	6,533	13,475
Ad valorem taxes receivable	6,358	-	6,358
Due from Skirvin Hotel Project fund	982,987	-	982,987
Other assets	300,000	-	300,000
Total assets	$ 8,924,310	$ 6,078,747	$ 15,003,057

Liabilities and Fund Balances

	TIF 1	Skirvin Hotel Project	Total Governmental Funds
Liabilities			
Accounts payable	$ 35,029	$ -	$ 35,029
Due to TIF 1 fund	-	982,987	982,987
Due to Urban Renewal	24,496	-	24,496
Advance PILOT payment	250,000	-	250,000
Total liabilities	309,525	982,987	1,292,512
Deferred Inflows of Resources	10,442	44,332	54,774
Fund Balances			
Restricted for			
Debt service	2,289,707	-	2,289,707
Economic development activities	-	5,051,428	5,051,428
Other TIF activities	6,314,636	-	6,314,636
Total fund balances	8,604,343	5,051,428	13,655,771
Total liabilities, deferred inflows of resources and fund balances	$ 8,924,310	$ 6,078,747	$ 15,003,057

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Reconciliation of the Balance Sheet – Governmental Funds to the Statements of Net Position
June 30, 2013

Total fund balances	$ 13,655,771
Amounts reported in the statements of net position are different because	
Capital assets, notes receivable and certain other assets used in governmental activities are not current financial resources and, therefore, are not reported in the fund	
Land	506,891
Building, net of accumulated depreciation of $291,112	5,458,359
Parking garages, net of accumulated depreciation of $ 636,201	12,193,847
Undivided ownership interest in buildings, net of accumulated depreciation of $53,496	1,118,961
Notes receivable	10,654,000
Earned but unavailable revenue	54,774
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the fund	
Long-term debt	(19,615,694)
Net position, per the statement of net position	$ 24,026,909

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2013

	TIF 1	Skirvin Hotel Project	Total Governmental Funds
Revenues			
Apportioned ad valorem taxes – TIF 1	$ 2,837,976	$ -	$ 2,837,976
Rental income	608,643	620,382	1,229,025
Interest income paid on tax deposits held by the Oklahoma County Treasurer	1,122	-	1,122
Interest income on loans	-	311,597	311,597
Investment income	19,612	16,988	36,600
Other income	9,629	-	9,629
Total revenues	3,476,982	948,967	4,425,949
Expenditures			
Bio-medical, bio-pharmaceutical and technological research and development facilities and other public research park improvements			
General	104,375	-	104,375
Parking facilities and other public improvements			
General	-	-	-
Administration	75,086	-	75,086
Other expenditures	63	105	168
Debt service			
Principal	2,006,700	-	2,006,700
Interest	298,534	-	298,534
Total expenditures	2,484,758	105	2,484,863
Excess of revenues over expenditures	992,224	948,862	1,941,086
Net Changes in Fund Balances	992,224	948,862	1,941,086
Fund Balances, Beginning of Year	7,612,119	4,102,566	11,714,685
Fund Balances, End of Year	$ 8,604,343	$ 5,051,428	$ 13,655,771

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statements of Activities
Year Ended June 30, 2013

Net changes in fund balances – governmental funds	$ 1,941,086
Amounts reported for governmental activities in the statement of activities are different because	
Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the lives of the assets	
Depreciation expense	(980,809)
Certain income is not derived from current financial resources and, therefore, not reported as income in governmental funds	
Apportioned TIF 1 ad valorem taxes	(17,348)
Rental income on parking garage	1,070
Interest income	26,635
Investment income receivable	6,013
Advances from debt agreements, principal repayments and changes in certain other assets are not reflected as revenues and expenditures in the statement of activities	
Principal payments on debt agreements and notes payable	2,006,700
Change in net assets, per the statement of activities	$ 2,983,347

Note 1: Summary of Significant Accounting Policies

Organization

The Oklahoma City Redevelopment Authority (the Authority) was formed as a public trust on May 7, 1985. This Declaration of Trust named the City of Oklahoma City, Oklahoma (the City) as the beneficiary of the trust. The purposes of the Authority are set forth in the Declaration of Trust.

The Authority is governed by a Board of Trustees nominated by the Mayor and approved by the City Council of the City. For financial reporting purposes, the Authority is a component unit of the City.

Presently, the Authority has no employees, but utilizes the Oklahoma City Urban Renewal Authority (Urban Renewal) to perform administrative activities.

The Authority has been designated as the entity to receive tax apportionment revenues for certain Tax Increment Financing Districts (TIF) of the City. The following TIFs are administered by the Authority:

TIF 1 and TIF 7 – Oklahoma Health Center Economic Development – Total budget of $68,000,000 plus interest and the cost of issuance of bonds to finance the project.

The districts have defined project areas and tax increment areas. TIF 1 and TIF 7 have set termination dates and are presently scheduled to terminate at June 30, 2022 and June 30, 2032, respectively.

Reporting Entity

The Authority's financial statements are included in the financial statements of the City as a discrete component unit. These financial statements include only the activities of the Authority and not those of Urban Renewal.

Basis of Presentation

The Authority complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

Government-Wide Financial Statements

The accompanying statement of net position and statement of activities display information about the Authority as a whole. The Authority's activities are all governmental in nature and generally are financed primarily through ad valorem taxes. The Authority has no business-type activities as defined by GASB 34.

Fund Financial Statements

Fund financial statements are normally organized into funds, each of which is considered to be a separate accounting entity. A fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. For the financial statement presentation, the Authority presently has two special revenue funds:

- TIF 1
- Skirvin Hotel Project

One of the funds accounts for the activity of the TIF. The other fund is as follows:

Skirvin Hotel Project – The Authority, Urban Renewal and the City have assisted in the renovation of the historic Skirvin Hotel. The renovation involved both public and private funds.

Implementation of New Accounting Standards

Effective July 1, 2012, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement defines deferred outflows or resources and deferred inflows of resources and where they are to be reported in the financial statements and redefine and provide new calculations for the classifications of net position.

Effective July 1, 2012, the Authority implemented GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*. This statement redefines certain items previously reported as assets and liabilities as deferred outflows and deferred inflows of resources. Furthermore, this statement limits the use of the term deferred to those specific items as defined in the standard.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

Measurement Focus

On the government-wide financial statements, the Authority’s activities are presented using the economic resources measurement focus as defined below:

- The statement of net position and the statement of activities utilize an economic resources measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the current financial resources measurement focus is used as defined below:

- The governmental funds utilize a current financial resources measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. The operating statements present sources and uses of available spendable financial resources during a given period. The statements use fund balances as the measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statements of net position and statements of activities, the Authority's activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets are used. Revenues, expenses, gains, losses, asset, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchanges take place.

In the fund financial statements, the governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority considers 60 days as the timeframe for collectible. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest which are reported when due.

Accounting Policies

The Authority's significant accounting policies related to the following basic financial statement categories are summarized below.

Capital Assets

The Authority generally capitalizes purchased or constructed assets with useful lives of more than one year and having costs of $7,500 or greater. 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. The Authority depreciates the buildings and structures currently on its books over a 25-year useful life.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires 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 period. Actual results could differ from those estimates.

Income Taxes

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

Net Position Classifications

Government-Wide Statements

Equity is classified as net position and displayed in three components:

Invested in Capital Assets, Net of Related Debt – Represents the net investment in capital assets less the debt associated with the capital assets.

Restricted –Represents net position which has been restricted by outside sources, including the City and relevant State of Oklahoma statutes. The net position has been restricted for debt service and economic development.

Unrestricted – Represents the remaining net position, if any.

Fund Financial Statements

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), defines fund balances for presentation as follows:

Nonspendable – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash.

Restricted – Consists of fund balance amounts with constraints placed on the use of the resources either by (a) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or (b) law through constitutional provisions or enabling legislation.

Committed – Reflects specific purposes pursuant to constraints imposed by formal action of the Authority's highest level of decision-making authority (the Board of Trustees). Also, such constraints can only be removed or changed by the same form or formal action.

Assigned – Reflects fund balance amounts that are constrained by the Authority's intent to be used for specific purposes, but meet neither the restricted nor committed forms of constraint.

Unassigned – Represents fund balance amounts that have not been assigned to other funds and have not been restricted, committed or assigned to specific purposes.

Based on the above definitions, the components of the Authority's fund balances are as follows:

Restricted – The Skirvin Hotel Project activities in TIF 2 are reflected as restricted due to conditions imposed by either financing documents or City approvals. TIF 2 is now being administered by the City. As more fully described in *Note 9*, certain notes require a reserve fund as well as encumbered revenues to be maintained. The restricted fund balance for debt service in TIF 1 was $2,289,707 at June 30, 2013. The remaining fund balance in TIF 1 is reflected as restricted for other TIF activities.

Program Revenues

The primary sources of program revenues for the Authority are income earned from rental revenues of Skirvin Hotel site and bio-medical research facilities and interest income earned on the note receivable from Skirvin Partners.

Annual Budget-to-Actual Comparison

The Authority is not required to and does not prepare a legally adopted annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 as required supplementary information is not presented.

The Authority does prepare a project life-to-date, budget-to-actual expenditure comparison that has been presented as other supplementary information.

Advertising Costs

All costs associated with advertising are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Deposits and Investments

Custodial 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 to be maintained in accounts which are fully insured or collateralized. As of June 30, 2013, the Authority had no uninsured or uncollateralized deposits. The Authority requires that investment collateral be held by a third-party custodian with whom the Authority has a current custodial agreement in the Authority's name.

Deposits, as considered for custodial credit risk under GASB 40, include nonnegotiable certificates of deposit. Consequently, deposits of the Authority at June 30, 2013 are $13,278,139 which includes the cash balance of $5,190,139 and the investment balanced of $8,088,000 both as shown on the Authority's financial statements.

Investments

The Authority's investments at June 30, 2013, consist entirely of certificates of deposit. All certificates of deposit held at year-end were in separate financial institutions and were fully covered by FDIC insurance.

While the Authority does not have a formal investment policy, its standard of operations is to only invest in short-term (maturity of less than 3 years) U.S. government or U.S. government agency securities, or short-term (maturity of less than 3 years) certificates of deposit.

Note 3: Due from Other Governments

Amounts due to the Authority from other governments at June 30, 2013, consisted of the following:

TIF 1 funds held by the Oklahoma County Treasurer	$ 6,358

Note 4: Rent Receivable

Rent receivable at June 30, 2013, consisted of the following:

Skirvin ground lease	$	266,150
Presbyterian Health Foundation – Mobile Incubator lease		88,391
Presbyterian Health Foundation – parking garage		40,922
Total rent receivable	$	395,463

Note 5: Notes Receivable

Skirvin Investment Fund, LLC

The $6,654,000 loan was secured with assets of Skirvin Investment Fund, LLC (the Fund) and bore interest at the rate of 1% during the construction period of the Skirvin Hotel, with interest payable monthly. After completion of the Skirvin Hotel, the interest rate increased to 3.86%. The completion date for the Skirvin Hotel was February 26, 2007. The note matured December 31, 2012, and was refinanced and the outstanding principal of $6,654,000 was assigned to Skirvin Partners LLC on December 31, 2012. Interest income of approximately $128,422 was recognized during the year ended June 30, 2013, in the accompanying statement of activities.

Skirvin Partners, LLC

The Authority loaned Skirvin Partners, LLC, $4,000,000. The loan is secured with the OCRA Subordinated Mortgage and bears interest at the rate of 3%, with interest payable monthly. The note matured December 31, 2012, and was refinanced as of that date for the amount of $10,654,000 at an interest rate of 3%. The refinanced note included the assigned loan to Skirvin Investment Fund. Under the new terms, accrued interest shall be paid semi-annually on June 1 and December 1, starting June 1, 2013, with a pro-rated payment for 5 months of interest. Principal payments shall be payable annually on December 1, starting December 1, 2013, with a payment of $200,000. Interest income of approximately $183,175 was recognized during the year ended June 30, 2013, in the accompanying statement of activities.

Summit Henderson at Arts Central, LLC

In addition to the note receivable that is recorded on the accompanying financial statement, there is a note receivable with Summit Henderson at Arts Central, LLC (Summit) in the principal amount of $1,900,000, without interest. The principal amount was paid to Summit upon completion of certain improvements which Summit promised to perform pursuant to a redevelopment agreement with the Authority. The principal amount of the promissory note was scheduled to be forgiven according to the loan forgiveness schedule presented below.

(Commencement Date – March 1, 2006)	
(30 months after commencement date)	$ 1,100,000
(42 months after commencement date)	240,000
(60 months after commencement date)	210,000
(72 months after commencement date)	190,000
(84 months after commencement date)	160,000
Total loan forgiveness	$ 1,900,000

Because the Authority intends to forgive the note, and the note was fully forgiven during the current fiscal year, it was not recorded on the accompanying financial statement.

Note 6: Capital Assets

Capital assets at June 30, 2013, consisted of the following:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 506,891	$ -	$ -	$ 506,891
Building	7,277,811	-	-	7,277,811
Presbyterian Health Foundation (PHF)				
PHF parking garage #1	9,621,463	-	-	9,621,463
PHF parking garage #2	6,283,556	-	-	6,283,556
Undivided ownership interest in buildings	1,337,403	-	-	1,337,403
	24,520,233	-	-	24,520,233
Less: accumulated depreciation	(4,768,257)	(980,809)	-	(5,749,066)
Building, parking garages and undivided ownership interest in buildings, net	19,751,976	(980,809)	-	18,771,167
Total capital assets, net	$ 20,258,867	$ (980,809)	$ -	$ 19,278,058

Building

The building relates to the Cytovance project, of which the Authority funded a portion of the construction. The building was completed during the year ended June 30, 2007, and depreciation commenced at that time. The building is being depreciated over a 25-year life, using the straight-line method of depreciation. Depreciation expense was $291,112 for the year ended June 30, 2013.

Parking Garages

While separated on the financial statements, there is in essence one parking garage, which was built in two phases. Since there are two separate lease agreements and two separate financing instruments, they are referred to as if there are two separate structures.

During the year ended June 30, 2008, the Authority acquired the parking garages in exchange for two promissory notes. The parking garages are being depreciated over a 25-year life, using the straight-line method of depreciation. Depreciation expense was $636,201 for the year ended June 30, 2013.

The parking garages are subject to long-term lease agreements with PHF. However, only parking garage #2 will generate revenues. These revenues will be equal to the debt service requirements. PHF will pay all maintenance and operating costs of the garages. The note for parking garage #1 will be repaid from TIF 1 resources.

The parking garages are subject to a repurchase option by PHF. The repurchase price is the greater of the (a) total cost paid by the Authority, less depreciation computed on a 25-year straight-line basis or (b) balance due on the acquisition note.

Land

During the year ended June 30, 2006, the City contributed the land and building of the Skirvin Hotel to the Authority. The government-wide financial statements accounted for the transaction as contributed capital assets, with an appraised value of $130,000 for the land and $1,131,000 for the building. The building was then sold for $1,131,000, resulting in no gain or loss being recognized in the government-wide statements. The Authority has leased the land, as more fully described in *Note 11*.

During 2007, Urban Renewal contributed land to the Authority for the Cytovance project. The government-wide financial statements accounted for the transaction as contributed capital assets, with an appraised value of $376,891.

Undivided Interest

The undivided interest represents a 1.89423% ownership interest in the PHF Research Park buildings (other than the building and parking garages already owned by the Authority). The ownership interest was acquired in May 2009, for a total cost of $1,337,403. The cost included $200,000 as an allowance for tenant improvements. The undivided interest is being depreciated over a 25-year life using the straight-line method of depreciation. Depreciation expense was $53,496 for the year ended June 30, 2013.

The ownership interest is subject to a repurchase option by PHF. The repurchase price is the greater of total cost paid by the Authority, less depreciation computed on a 25-year straight-line basis or the balance due on the tax apportionment note delivered in payment of the acquisition cost and tenant improvements for such Incubator Facility, if any.

The ownership interest also provides for the Authority to receive rental of $1 per year, plus net cash flow derived from the sublease of PHF to the tenant. As of June 30, 2012, the Authority had not received any lease payments, as there were no significant amounts of net cash flow generated by the sublease. Lease payment of $38,816 for the first three years was received in November 2012, and lease receivable of $88,391 for the year ending June 30, 2013.

Note 7: Other Assets

The balance of other assets as of June 30 consisted of:

Deposits held by PHF	$ 300,000

Note 8: Advance Payment in Lieu of Taxes (PILOT) Payment

In October 2011, a Supplemental Redevelopment Agreement was entered into by and among Urban Renewal, PHF, and The Toby Keith Foundation (TKF) for the development of OK Kids Korral. As part of the Supplemental Redevelopment Agreement and the Ground Lease agreement between PHF and TKF, TKF is subject to payments in lieu of ad valorem taxes. These payments in lieu of ad valorem taxes are payable to the Authority on December 31 beginning in the year of the completion of the improvements and each year thereafter. TKF has made a $250,000 prepayment for payments in lieu of ad valorem taxes. Completion date is scheduled for December 16, 2013. As of June 30, 2013, the improvements had not been completed and this prepayment has been reflected as a liability at June 30, 2013.

Note 9: Long-Term Debt

A summary of changes in long-term debt for 2013 is as follows:

	Beginning Balance	Advances	Payments	Ending Balance
Dean A. McGee Note A-1	$ 2,553,826	$ -	$ (237,012)	$ 2,316,814
Bio-Pharmaceutical Manufacturing Facility Note A-2	5,533,290	-	(513,525)	5,019,765
PHF Note A-3	9,023,519	-	(837,442)	8,186,077
PHF Note B-1	4,511,759	-	(418,721)	4,093,038
	$ 21,622,394	$ -	$ (2,006,700)	$ 19,615,694

Following is a description of long-term debt summarized in the above tables:

Dean A. McGee Note A-1

The Authority issued a $3,000,000 parity tax apportionment revenue note on August 3, 2007 (Dean A. McGee Note A-1). The note matures on July 1, 2022, and interest on the note is calculated as either the LIBOR rate plus 1% or the Prime rate minus 1%, whichever is less, adjusted annually on July 1st of each year. From the issue date to July 1, 2010, only interest was due on the note; commencing on August 1, 2010, both interest and principal are due on the note. The amount of interest paid for the year ending June 30, 2013, was $35,260, and the interest rate as of June 30, 2013, was 1.4606%.

The note requires that a reserve fund be maintained. The reserve fund is calculated as equaling 25% of the annual debt service determined to be due by the next recalculation date, July 1 of each year the note is outstanding. The amount of reserve fund required at June 30, 2013, was $67,562. The note also requires that encumbered revenues be maintained. Encumbered revenues are the amount of funds necessary to service the debt obligation during a given year. The amount of encumbered funds required at June 30, 2013, was $270,438.

TIF 1 Tax Apportionment Note (presently Note A-2)

As of June 30, 2004, the Authority issued a $7,000,000 tax apportionment revenue note to a local bank (BancFirst). The revenue note bore interest at ½% below prime and was interest-only for the first year; interest was paid monthly commencing August 1, 2004. Principal payments were due in monthly installments. The note had a maturity date of July 1, 2011.

During the year ended June 30, 2005, the note was purchased from BancFirst by PHF.

Proceeds of the note were used for partial construction of the Cytovance project. Collateral for the revenue note consisted of the project to be constructed, a limited guarantee by PHF, a $300,000 deposit reflected in other assets, the construction bank account for deposit of note proceeds and payment of construction costs, the pledge of TIF 1 revenues, and the assignment of future rents on the project.

In addition to the $300,000 deposit made, throughout the term of the loan the Authority agreed to maintain and pledge to the lender an additional $700,000 of legally effective and unencumbered TIF 1 funds to pay costs of the construction project.

The note was refinanced on August 31, 2007, as the Bio-Pharmaceutical Manufacturing Facility Note A-2. The amount refinanced, after advancing $27,668 for closing costs, was $6,500,000. The note bears interest at the lesser of LIBOR plus 1% or Prime rate minus 1% (1.4606% at June 30, 2013). The rate changes annually on July 1. The note matures July 1, 2022, and required interest-only to be paid monthly until August 1, 2010, at which time interest and principal payments commenced. For the year ended June 30, 2013, $76,397, of interest was paid on the note.

The note requires that a reserve fund be maintained. The reserve fund is calculated as equaling 25% of the annual debt service determined to be due by the next recalculation date, July 1st of each year the note is outstanding. The amount of reserve fund required at June 30, 2013, was $146,385. The note also requires that encumbered revenues be maintained. Encumbered revenues are the amount of funds necessary to service the debt obligation during a given year. The amount of encumbered funds required at June 30, 2013, was $585,948.

PHF Note A-3

The Authority issued a $10,600,000 parity tax apportionment revenue note on August 31, 2007 (PHF Note A-3). The note matures on July 1, 2022, and interest on the note is calculated as either the LIBOR rate plus 1% or the Prime rate minus 1%, whichever is less, adjusted annually on July 1st of each year. From the issue date to July 1, 2010, only interest was due on the note; then, commencing on August 1, 2010, both interest and principal were due on the note. Payments are to be made on the 1st day of each month. The amount of interest paid for the year ending June 30, 2013, was $124,585, and the interest rate at June 30, 2013, was 1.4606%.

The note requires that a reserve fund be maintained. The reserve fund is calculated as equaling 25% of the annual debt service determined to be due by the next recalculation date, July 1st of each year the note is outstanding. The amount of reserve fund required at June 30, 2013, was $238,720. The note also requires that encumbered revenues be maintained. Encumbered revenues are the amount of funds necessary to service the debt obligation during a given year. The amount of encumbered funds required at June 30, 2013, was $955,547.

PHF Note B-1

The Authority issued a $5,300,000 parity parking revenue note on August 31, 2007 (PHF Note B-1). The note matures on July 1, 2022, and interest on the note is calculated as either the LIBOR rate plus 1% or the Prime rate minus 1%, whichever is less, adjusted annually on July 1st of each year. From the issue date to July 1, 2010, only interest was due on the note; then, commencing on August 1, 2010, both interest and principal were due on the note. Payments are to be made on the 1st day of each month. The amount of interest paid for the year ending June 30, 2013, was $62,292, and the interest rate as of June 30, 2013, was 1.4606%.

There are no reserve funds or encumbered revenue requirement for the note. The note is collateralized by the revenues collected from operations of the garage.

Future principal and interest payments on the notes using rates in effect at July 1, 2013, are as follows:

Year Ended June 30	Dean A McGee Note A-1 Principal	Dean A McGee Note A-1 Interest	Bio-Pharmaceutical Manufacturing Facility Note A-2 Principal	Bio-Pharmaceutical Manufacturing Facility Note A-2 Interest	PHF Note A-3 Principal	PHF Note A-3 Interest	PHF Note B-1 Principal	PHF Note B-1 Interest
2014	$ 241,988	$ 28,450	$ 524,308	$ 61,641	$ 855,025	$ 100,522	$ 427,512	$ 50,261
2015	245,263	24,987	531,402	54,138	866,594	88,287	433,297	44,143
2016	248,403	21,846	538,207	47,333	877,692	77,189	438,846	38,595
2017	251,584	18,665	545,099	40,441	888,931	65,950	444,465	32,975
2018	254,806	15,443	552,079	33,461	900,314	54,567	450,157	27,284
	1,242,044	109,391	2,691,095	237,014	4,388,556	386,515	2,194,277	193,258
2019–2023	1,074,770	28,748	2,328,669	62,286	3,797,521	194,800	1,898,761	50,787
	$ 2,316,814	$ 138,139	$ 5,019,764	$ 299,300	$ 8,186,077	$ 581,315	$ 4,093,038	$ 244,045

The following is a summary of the notes as of June 30, 2013:

Dean A. McGee Note A-1	$ 2,316,814
Bio-Pharmaceutical Manufacturing Facility Note A-2	5,019,765
PHF Note A-3	8,186,077
PHF Note B-1	4,093,038
	19,615,694
Less current maturities	(2,048,833)
Long-term debt, less current maturities	$ 17,566,861

Note 10: Net Position

The accompanying statement of net position reflect the following types of net position as of June 30, 2013:

Net Investment in Capital Assets – Represents a balance of $1,979,178. The debt associated with capital assets had a balance of $17,298,880 at June 30, 2013.

Restricted – Represents net position which has been restricted by outside sources. The net position restricted for debt service was $2,289,707. The net position restricted for the Skirvin Hotel Project and TIF activities was $5,073,459 and $14,690,058, respectively.

Note 11: Revenue

Revenue is generated through apportionment of ad valorem tax increments collected within TIF 1. The increment of ad valorem taxes, as defined by the Oklahoma Local Development Act, in excess of ad valorem taxes generated by the base assessed value of the increment district may be apportioned and used to pay project costs authorized by the project plan. The taxes are collected and distributed by the Oklahoma County Treasurer. Monies not distributed to the Authority are maintained for the benefit of the Authority by the Oklahoma County Treasurer. Interest income is paid by the Oklahoma County Treasurer on monies collected and held for apportionment and distribution.

A summary of the taxes recognized in fiscal year 2013, presented by tax year, is as follows:

	TIF	Tax
Tax year		
2010	1	$ 1,579
2011	1	182,758
2012	1	2,653,639
		$ 2,837,976

A summary of interest income paid on tax deposits held by the Oklahoma County Treasurer to the Authority for the year ended June 30, 2013, is as follows:

TIF 1	$ 1,122

Note 12: Expenditures

TIF 1 expenses incurred by the Authority are classified into three basic categories. The categories defined by the project plan, as amended May 16, 2001, November 30, 2002, and August 1, 2006, are as follows:

Category A – The cost of planning, financing, assistance in developing financing, acquiring and constructing bio-medical, bio-pharmaceutical, and technological research and development facilities, complementary commercial facilities and other public research park improvements by the Authority, a public trust.

Category B – The cost of planning, financing, assistance in developing financing, acquiring, constructing, and developing parking facilities, complementary commercial facilities, and related public improvements by the Authority, a public trust.

Category C – The cost of implementing and administering the project plan incurred or to be incurred by the City and Urban Renewal, including, but not limited to, payment and/or reimbursement of costs advanced in connection with the preparation and approval of the project and project plan, administrative costs, organizational costs, professional service costs, and financing costs and fees.

The August 1, 2006, plan amendment added TIF 7 to the project plan. TIF 7 project cost categories follow the definitions above, with the addition of Category D, defined as follows:

Category D – The costs of implementing the economic development and redevelopment activities of Urban Renewal, in accordance with the Harrison-Walnut Urban Renewal Plan, and this project plan, including assistance in development financing and the negotiation, preparation, execution, and implementation of development and redevelopment agreements, including agreements for financing, property acquisition, construction of public improvements, and land disposition.

The project plan allows TIF 1 to advance funds for TIF 7 expenditures, and TIF 7 to reimburse those amounts when funding is received. There were no TIF 7 expenditures for the years ended June 30, 2013.

Note 13: Lease Agreement

The Authority has leased the land beneath the Skirvin Hotel to Skirvin Partners, LLC, under a 99-year lease agreement. Payments under the lease are to be calculated at 1% of the Rent Capitalization Value of the Skirvin Hotel and the land, calculated annually by capitalizing the net operating income using a rate of 8.5%. Skirvin Partners, LLC, has the option to purchase the land at the end of the lease.

All rents collected under the lease agreement are to be used to repay Urban Renewal for funds loaned to the Authority, not to exceed $1,500,000. Of the $1,500,000, the Authority drew down $651,731. The $651,731 was repaid during the year ended June 30, 2009. The balance of rents collected will be retained by the Authority pending authorization and direction for the use of the revenue by the City Council of the City of Oklahoma City or its designee.

Rent revenues recognized under the lease agreement were $620,382 for the year ended June 30, 2013.

Note 14: Related-Party Transactions

Urban Renewal

At June 30, 2013, the Authority owed $24,496 of TIF 1 funds to Urban Renewal for project costs.

Note 15: Subsequent Events

Sale of Parking Garages to OU

On October 1, 2013, the Authority sold the Research Park Parking Garages (Parking Garage #1 and #2 in *Note 6* above) to the Board of Regents of the University of Oklahoma (OU). As part of this sales transaction, PHF exercised its Option to Purchase the Parking Facilities from the Authority, and PHF endorsed the Parity Tax Apportionment Revenue Note No. A-3 and Parity Parking Revenue Note No. B-1 (disclosed in *Note 9* above) to OU. In consideration of the sale, the Authority received the cancellation of Note A-3 and Note B-1 as well as the termination of the lease agreement between PHF and the Authority. The net result of this sale without regard to any other costs of the sale was $21,081.

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

Board of Trustees
Oklahoma City Redevelopment 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 the governmental activities and major funds of the Oklahoma City Redevelopment Authority (the Authority), a component unit of the City of Oklahoma City, Oklahoma (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 6, 2013.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, there can be no assurance that all material weaknesses or significant deficiencies have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-01 and 2013-02 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-03 to be a significant deficiency.

Compliance

As part of obtaining reasonable assurance about whether the 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, 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 Matters

We noted certain matters that we reported to the Authority's management in a separate letter dated December 6, 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Oklahoma City, Oklahoma
December 6, 2013

Reference Number	Finding
2013-01	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.

Condition – Numerous control deficiencies were noted surrounding the Authority's ability to produce fairly stated financial information. These include:

- No review performed over journal entries made to general ledgers
- Failure to balance all fund ledgers
- Failure to record and properly account for certain revenue accruals, expense accruals and interfund transactions.

Context – Accurate financial information is critical to managing operations and communicating financial position and results of operations to interested parties.

Effect – Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner.

Cause – The Authority did not have accounting personnel with sufficient training to appropriately address the control deficiencies noted above.

Recommendation – We recommend management provide additional training to accounting personnel and/or augment the current accounting staff with supervisory personnel which have adequate training to provide adequate oversight over the financial reporting function.

Views of Responsible Officials and Planned Corrective Actions – We agree with the finding and have taken corrective action by hiring a chief financial officer to provide oversight to the financial reporting function of the Authority.

Reference Number	Finding
2013-02	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – The Authority relies upon calculations provided by payers of certain major revenue sources for accurate revenue recognition. However, the Authority has not requested nor received independent verification of those calculations as provided in the terms of the respective agreements. Context – Accurate financial information is critical to managing operations and communicating financial position and results of operations to interested parties. Effect – Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – The management of the Authority has not requested the independent verifications allowed to the Authority under the terms of leases into which it has entered. Recommendation – We recommend management request and obtain independent assurance that the rental revenues it receives are properly supported and calculated either by those means allowed under the terms of its leases or by other mutually agreeable methods. Views of Responsible Officials and Planned Corrective Action – Management agrees greater assurance is needed relative to rental receipts and will work closely with lessees to obtain same.

Reference Number	Finding
2013-03	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Incompatible duties are being performed by a single individual creating a situation where misstatements could occur and not be detected or prevented in a timely manner. Specifically, the same individual responsible for preparing deposits also reconciles the bank accounts and records receipts to the general ledger. Context – Adequate segregation of duties is critical to maintaining effective internal controls over financial reporting. Effect – Potentially material misstatements in the financial statements due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – An insufficient number of accounting personnel have been assigned to perform the duties related to the cash controls and management has not implemented sufficient monitoring controls over cash receipts. Recommendation – We recommend that incompatible duties be performed by separate individuals or, if that is impractical, those duties be subject to regular and documented review by a management level individual. Views of Responsible Officials and Planned Corrective Actions – Management of the Authority agrees that adequate segregation of duties is necessary to maintain effective internal control over financial reporting. Management has developed written accounting procedures and controls to correct the deficiency. Specific to cash controls, all receipts are received and logged by the office assistant. Receipt logs are reviewed and compared to bank statements regularly by the chief financial officer.

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Budget-to-Actual Expenditure Comparison (Project Life-to-Date)
June 30, 2013

TIF 1	Category A		Category B		Category C
Total budget	$ 22,000,000		$ 23,000,000		$ 2,000,000
Expenditures*	(2,545,934)		(3,916,056)	**	(1,497,333)
Other financing sources					
Reimbursement from					
Dean A. McGee	-		3,000,000	**	-
Future loan repayments					
PHF Note A-3	-		(10,600,000)	***	-
Dean A. McGee Note A-1	-		(3,000,000)	***	-
Cytovance loan	(7,027,668)	***	-		-
Budget amount remaining	$ 12,426,398		$ 8,483,944		$ 502,667

TIF 7	Category A	Category B	Category C	Category D
Total budget	$ 4,000,000	$ 5,000,000	$ 1,000,000	$ 11,000,000
Expenditures	-	-	-	-
Budget amount remaining	$ 4,000,000	$ 5,000,000	$ 1,000,000	$ 11,000,000

*Does not include interest, debt repayments or loan/bond issuance costs.

** Included in expenditures is a $3,000,000 expenditure to Dean A. McGee which was not paid with TIF monies.

*** TIF dollars have been committed to repay the debt; as such, the original debt amount has been reduced from the budget.

In addition, interest and costs of issuance of bonds to finance the authorized project activities are authorized but not budgeted. The schedule above only reflects budgeted TIF categories.

Oklahoma City Redevelopment Authority
A Component Unit of the City of Oklahoma City, Oklahoma
Notes to Budget-to-Actual Expenditure Comparison (Project Life-to-Date)
June 30, 2013

Note 1: Basis of Preparation

The budget-to-actual comparisons have been prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available and expenditures are recorded when the liability is incurred.

Note 2: Other Revenues

Other revenues (cumulative) as of June 30, 2013, consisted of the following:

Investment income	$	530,750
Rental income		2,341,266
Interest income received on tax deposits held by the Oklahoma County Treasurer		230,598
Reimbursement from Public Works Department		46,540
	$	3,149,154

Note 3: Expenditures

TIF 1

All TIF 1 project costs incurred by the Authority are classified into three basic categories. The categories are as follows:

Category A – The cost of planning, financing, assistance in developing financing, acquiring, and constructing bio-medical, bio-pharmaceutical, and technological research and development facilities, complementary commercial facilities, and other public research park improvements by the Authority, a public trust.

Category B – The cost of planning, financing, assistance in developing financing, acquiring, constructing, and developing parking facilities, complementary commercial facilities, and related public improvements by the Authority, a public trust.

Category C – The cost of implementing and administering the project plan incurred or to be incurred by the City and Urban Renewal, including, but not limited to, payment and/or reimbursement of costs advanced in connection with the preparation and approval of the project and project plan, administrative costs, organizational costs, professional service costs, and financing costs and fees.

Cytovance project expenditures are costs related to the construction of the Cytovance project that were funded through drawdowns on the note payable with PHF.

Interest expense and financing costs shown under the unbudgeted category were included in the estimated budget; however, no budget amount was established for these categories. They can be paid from TIF 1 monies.

TIF 7

TIF 7 project cost categories follow the TIF 1 definition above, with the addition of Category D, defined as follows:

Category D – The costs of implementing the economic development and redevelopment activities of Urban Renewal, in accordance with the Harrison-Walnut Urban Renewal Plan, and this project plan, including assistance in development financing and the negotiation, preparation, execution and implementation of development and redevelopment agreements, including agreements for financing, property acquisition, construction of public improvements, and land disposition.