

FILED

NOV 04 2011

State Auditor & Inspector

Rec: 010802

Oklahoma Industrial Finance Authority

Financial Statements

June 30, 2011 and 2010
(With Independent Auditors' Report Thereon)

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Management's Discussion and Analysis</u>	I-1
<u>Financial Statements</u>	
Statements of Net Assets	3
Statements of Revenues, Expenses, and Changes in Net Assets	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	8
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in <u>Accordance with <i>Government Auditing Standards</i></u>	24



INDEPENDENT AUDITORS' REPORT

Board of Directors
Oklahoma Industrial Finance Authority

We have audited the accompanying statements of net assets of the Oklahoma Industrial Finance Authority (the "Authority"), a component unit of the State of Oklahoma, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis information on pages I-1 and I-2 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Finley & Coak, PLLC

Shawnee, Oklahoma
October 19, 2011

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Our discussion and analysis of the financial performance of the Oklahoma Industrial Finance Authority (the "Authority"), a component unit of the State of Oklahoma, provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the Authority's financial statements, which begin on page 3.

Financial Highlights

- Total operating revenues decreased by approximately \$37,000 (2.0% decrease) to \$1.8 million during 2011 compared to \$1.9 million in 2010, consisting primarily of a decrease in earnings from notes receivable. Total operating expenses decreased to \$1.7 million (5.2% decrease) in 2011 from 2010's \$1.8 million, due to a decrease in bond interest expense. Driven by these changes, net assets increased \$70,000 from 2010.
- Total operating revenues decreased by approximately \$270,000 (12.9% decrease) to \$1.9 million during 2010 compared to \$2.1 million in 2009, consisting primarily of a decrease in earnings from notes receivable. Total operating expenses decreased to \$1.8 million (6.1% decrease) from 2009's \$2.0 million, due to a decrease in bond interest expense. Driven by these changes, net assets increased \$14,450 from 2009.
- The Authority's total assets decreased approximately \$500,000 from \$51 million as of June 30, 2010, to \$50.5 million as of June 30, 2011 (1.0% decrease). Total liabilities decreased approximately \$600,000 from \$48.3 million as of June 30, 2010, to \$47.7 million as of June 30, 2011 (1.2% decrease) caused by principal reductions in general obligation bonds during 2011.
- The Authority's total assets decreased approximately \$3.3 million from \$54.3 million as of June 30, 2009, to \$51 million as of June 30, 2010 (6.0% decrease). Total liabilities decreased approximately \$3.3 million from \$51.6 million as of June 30, 2009, to \$48.3 million as of June 30, 2010 (6.4% decrease).
- Restricted assets increased from approximately \$10,500 as of June 30, 2010, to approximately \$10,800 as of June 30, 2011, an increase of approximately \$300 (3.2% increase).
- Restricted assets increased from approximately \$5,200 as of June 30, 2009, to approximately \$10,500 as of June 30, 2010, an increase of approximately \$5,300 (103.1% increase).

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A), CONTINUED

Financial Highlights, Continued

- The balance of outstanding loans, net of the allowance for doubtful accounts, decreased during 2011. At June 30, 2011, there were 16 loans outstanding with a balance of \$15.8 million compared to 20 loans outstanding at June 30, 2010, with a balance of \$18.1 million. The Authority closed no loans in 2011 and one loan in 2010. At June 30, 2011, the Authority was still in the process of foreclosing on a loan with an approximate \$1 million unpaid principal balance. Based on a September 18, 2009, appraisal, the Authority's management believes the estimated value of the real estate securing the loan is sufficient to cover the unpaid loan's principal balance at June 30, 2011.
- The balance of outstanding loans, net of the allowance for doubtful accounts, increased during 2010. At June 30, 2010, there were 20 loans outstanding with a balance of \$18.1 million compared to 19 loans outstanding at June 30, 2009, with a balance of \$17.9 million. The Authority closed one loan in 2010 and no loans in 2009. At June 30, 2010, the Authority was in the process of foreclosing on a loan with an approximate \$1 million unpaid principal balance.
- The balance of the outstanding general obligation bonds was \$47.3 million as of June 30, 2011, and \$47.9 million as of June 30, 2010; a decrease of \$600,000, which represents the scheduled bond principal payments.
- The balance of the outstanding general obligation bonds was \$47.9 million as of June 30, 2010, and \$51.3 million as of June 30, 2009; a decrease of \$3.3 million, which represents the early redemption of the \$2.7 million outstanding balance of the Series V bonds and other scheduled bond principal payments.

Economic Factors and Next Year's Outlook

Management is of the opinion that the loan level and the purchase of loans guaranteed by the Oklahoma Credit Enhancement Reserve Fund will remain low to moderate. No changes in the Authority's financial strategies are anticipated for the next year.

Contacting the Authority's Financial Management

This financial report is designed to provide the Board's accountability of the Authority. If you have questions about this report or need additional financial information, contact the Oklahoma Industrial Finance Authority, 5900 N. Classen Court, Oklahoma City, OK 73118.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

STATEMENTS OF NET ASSETS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,694,105	1,375,574
Notes receivable	2,380,913	2,018,476
Miscellaneous accounts receivable	636	522
Accrued interest:		
Notes receivable	59,131	69,798
Investments	141,167	141,651
Total current assets	<u>8,275,952</u>	<u>3,606,021</u>
Noncurrent assets:		
Restricted cash and cash equivalents	10,843	10,508
Investments, at fair value	28,678,882	31,149,611
Notes receivable, net of allowance for doubtful accounts of \$77,730 and \$851,730 at June 30, 2011 and 2010, respectively	13,395,811	16,079,377
Unamortized bond issuance costs	25,941	28,854
Leased property, net of accumulated depreciation of \$49,875 and \$47,250 at June 30, 2011 and 2010, respectively	130,125	132,750
Total noncurrent assets	<u>42,241,602</u>	<u>47,401,100</u>
Total assets	<u>50,517,554</u>	<u>51,007,121</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

STATEMENTS OF NET ASSETS, CONTINUED

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Liabilities		
Current liabilities:		
Accounts payable	1,194	1,005
Accrued compensated absences	85,367	83,005
General obligation bonds	595,000	565,000
Accrued bond interest payable	289,406	298,760
Total current liabilities	<u>970,967</u>	<u>947,770</u>
Noncurrent liabilities:		
General obligation bonds, net	46,711,206	47,289,319
Unamortized bond premium/discount, net	43,971	48,767
Total noncurrent liabilities	<u>46,755,177</u>	<u>47,338,086</u>
Total liabilities	<u>47,726,144</u>	<u>48,285,856</u>
Net Assets		
Restricted	10,843	10,508
Unrestricted	<u>2,780,567</u>	<u>2,710,757</u>
Total net assets	<u>\$ 2,791,410</u>	<u>2,721,265</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Operating revenues:		
Interest income:		
Notes receivable	\$ 928,501	972,342
Investments	857,739	826,714
Other service charges and fees	28,628	53,304
Total operating revenues	<u>1,814,868</u>	<u>1,852,360</u>
Operating expenses:		
Administrative	353,225	356,816
Bond interest	1,388,903	1,481,581
Depreciation	2,625	2,625
Total operating expenses	<u>1,744,753</u>	<u>1,841,022</u>
Operating income	<u>70,115</u>	<u>11,338</u>
Non-operating revenues:		
Gain from redemptions/sales of investments	30	3,112
Total non-operating revenues	<u>30</u>	<u>3,112</u>
Changes in net assets	70,145	14,450
Net assets, beginning of year	<u>2,721,265</u>	<u>2,706,815</u>
Net assets, end of year	<u>\$ 2,791,410</u>	<u>2,721,265</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Cash flows from operating activities:		
Collections of interest on notes receivable	\$ 939,168	977,457
Collections of fees on notes receivable	2,116	26,904
Collections of interest on investments	863,657	808,597
Collections of rent from real estate property	26,400	26,400
Payments of salaries and benefits	(280,519)	(286,627)
Payments of administrative expenses	(70,156)	(70,178)
Payments of interest on debt	<u>(1,383,253)</u>	<u>(1,473,773)</u>
Net cash provided by operating activities	<u>97,413</u>	<u>8,780</u>
Cash flows from capital and related financing activities:		
Bond principal payments	<u>(565,000)</u>	<u>(3,275,000)</u>
Net cash used in capital and related financing activities	<u>(565,000)</u>	<u>(3,275,000)</u>
Cash flows from investing activities:		
Collections of principal on loans	2,321,129	1,916,750
Loans made	-	(2,076,941)
Purchase of investments	-	(1,000,000)
Principal payments received from sale, maturity, or redemption of investments	2,465,294	2,491,334
Gain from redemptions/sales of investments	<u>30</u>	<u>3,112</u>
Net cash provided by investing activities	<u>4,786,453</u>	<u>1,334,255</u>
Net increase (decrease) in cash and cash equivalents	4,318,866	(1,931,965)
Cash and cash equivalents, unrestricted and restricted, at beginning of year	<u>1,386,082</u>	<u>3,318,047</u>
Cash and cash equivalents, unrestricted and restricted, at end of year	<u>\$ 5,704,948</u>	<u>1,386,082</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

STATEMENTS OF CASH FLOWS, CONTINUED

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 70,115	11,338
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,625	2,625
Amortization of bond premium/discount, net	(4,796)	(2,878)
Amortization of bond issue costs and deferred debt refundings	19,800	30,102
Amortization of investment premium	5,435	16,928
Change in operating assets and liabilities:		
Accrued interest—investments	484	(35,045)
Accrued interest—notes receivable	10,667	5,115
Miscellaneous accounts receivable	(114)	-
Accounts payable	189	(24)
Accrued compensated absences	2,362	36
Accrued bond interest payable	(9,354)	(19,417)
Net cash provided by operating activities	<u>\$ 97,413</u>	<u>8,780</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Oklahoma Industrial Finance Authority (the "Authority") was established under the Oklahoma Industrial Finance Authority Act of 1959. The beneficiary of the Authority is the State of Oklahoma (the "State"). The financial statements of the Authority are also included as a component unit in the reporting entity financial report of the State.

The Authority assists with the State's industrial development. The Authority makes loans to authorized industrial development agencies or trusts and new or expanding industries within the state. These loans are secured by first or second mortgages on real estate and equipment.

Fund Accounting

The Authority is organized and operated as an enterprise fund. An enterprise fund accounts for activities for which the intent of the governing body is that the cost of providing goods or services to the public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of net income is appropriate.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Governmental Accounting Standards Board (GASB). Under the guidelines of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

The Authority follows the provisions of GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, in preparing its financial statements.

Basis of Accounting

The Authority prepares its financial statements on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when the obligation is incurred.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Notes Receivable and Allowance for Doubtful Accounts

Notes receivable are stated at the amount of unpaid principal, reduced by an allowance for doubtful accounts. Interest on notes receivable is calculated using the effective interest method. The allowance for doubtful accounts is established through a provision for bad debts that is charged to expense. Notes receivable are charged against the allowance for doubtful accounts when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing notes receivable that may become uncollectible, based on evaluations of the collectibility of notes receivable and the loss experience with prior notes receivable. The evaluations take into consideration such factors as changes in the nature and volume of the notes receivable portfolio, overall portfolio quality, review of specific problem notes receivable, and current economic conditions that may affect the borrower's ability to pay. Accrual of interest is discontinued on a note receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of 3 months or less when purchased to be cash equivalents.

Debt Refundings

The Authority accounts for debt refundings in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The statement requires that the difference between reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense. The total amount deferred as a result of the FY-2002 current refunding of Series N, P, Q, and R was \$329,499. The carrying amount of the deferred debt refundings at June 30, 2011 and 2010, was \$143,794 and \$160,681, respectively. Amortization expense of the deferred debt refundings was \$16,887 for each of the years ended June 30, 2011 and 2010, and is included in bond interest expense in the accompanying statements of revenues, expenses, and changes in net assets.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Compensated Absences

Employees earn annual vacation leave at the rate of 15 days per year during the first 5 years of service, 18 days per year for 5 to 10 years of service, 20 days per year for 10 to 20 years of service, and 25 days per year for 20 or more years of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued annual leave is payable upon layoff, resignation, retirement, or death.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that will affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

Income Taxes

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

Recent Accounting Pronouncements

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature and certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- a) Financial Accounting Standards Board Statements and Interpretations.
- b) Accounting Principles Board Opinions.
- c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) GENERAL OBLIGATION BONDS

The Authority's general obligation bonds are authorized and issued for the funding of industrial finance loans to encourage business development within the state. All revenues arising from the net proceeds from repayment of industrial finance loans and interest received thereon are pledged under these bond issues. In addition, these general obligation bonds are backed by the full faith and credit of the State. Changes in the general obligation debt outstanding (amounts expressed in thousands and gross of deferred debt refundings) for the years ended June 30, 2011 and 2010, were as follows:

Balance outstanding at June 30, 2009	\$	51,290
Less:		
Current maturities		(540)
Series redemption		<u>(2,735)</u>
Balance outstanding at June 30, 2010		48,015
Less:		
Current maturities		<u>(565)</u>
Balance outstanding at June 30, 2011	\$	<u>47,450</u>

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) GENERAL OBLIGATION BONDS, CONTINUED

The general obligation bonds outstanding (dollars expressed in thousands) as of June 30 were as follows:

<u>Industrial Finance Bonds</u>	<u>Maturity</u>		<u>Interest Rate</u>	<u>2011</u>	<u>2010</u>
Series 2001 N	8/1/2018	**Variable	2.50%	\$ 10,000	10,000
Series 2001 P	8/1/2019	**Variable	2.50%	10,000	10,000
Series 2001 Q	11/1/2019	**Variable	2.50%	10,000	10,000
Series 2001 R	11/1/2021	**Variable	2.50%	10,000	10,000
Series W-1	9/1/2020		5.00% to 5.25%	6,465	6,950
Series W-2	9/1/2020		3.25% to 4.00%	985	1,065
Total before deferred debt refundings				47,450	48,015
Less: Deferred debt refundings				(144)	(161)
Total general obligation bonds, net				47,306	47,854
Less: General obligation bonds due within 1 year				(595)	(565)
Total general obligation bonds due after 1 year, net				<u>\$ 46,711</u>	<u>47,289</u>

**These rates are variable and are established quarterly. Effective November 1, 2007, the rate is based on the prime rate published in the Wall Street Journal minus 2.90%, with a 2.50% floor. As of June 30, 2011 and 2010, the rates were at the minimum rate under the contract.

As of June 30, 2011, the Authority's general obligation bonds service requirements for principal and interest (dollars expressed in thousands) in future years were as follows.

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 595	1,353	1,948
2013	625	1,323	1,948
2014	655	1,291	1,946
2015	690	1,258	1,948
2016	720	1,224	1,944
2017-2021	34,165	4,041	38,206
2022	10,000	125	10,125
	<u>\$ 47,450</u>	<u>10,615</u>	<u>58,065</u>

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK

Certain cash and investments of the Authority are on deposit with the Oklahoma State Treasurer's Office, which invests the funds at the direction and on behalf of the Authority.

The Bond Interest Account and the Bond Redemption Account were established by Oklahoma statutes for the purpose of paying and discharging the interest and principal on the State's Industrial Finance Bonds. The general obligation bond resolutions and supplemental resolutions require the Authority to set aside in the Bond Interest Account an amount sufficient to cover all interest requirements at least 30 days prior to the due date. To guarantee the retirement of Industrial Finance Bonds at maturity, the Authority or the State Treasurer shall pay into the Bond Redemption Account an amount sufficient to cover bond redemption requirements as set forth in the general obligation bond resolutions and supplemental resolutions.

The balances in the previously mentioned accounts at June 30 consisted of cash and cash equivalents, which approximate market, and were as follows:

	2011		
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Bond Interest Account	\$ -	-	-
Bond Redemption Account	<u>10,843</u>	<u>-</u>	<u>10,843</u>
	<u>\$ 10,843</u>	<u>-</u>	<u>10,843</u>
	2010		
	<u>Cash</u>	<u>Investments</u>	<u>Total</u>
Bond Interest Account	\$ -	-	-
Bond Redemption Account	<u>10,508</u>	<u>-</u>	<u>10,508</u>
	<u>\$ 10,508</u>	<u>-</u>	<u>10,508</u>

At June 30, 2011 and 2010, cash and cash equivalents amounted to \$5,694,105 and \$1,375,574, respectively, of which \$10,843 and \$10,508, respectively, was restricted cash, which was on deposit with the State Treasurer's internal investment pool, OK INVEST.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

Investment Interest Rate Risk—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, except for its policy regarding its investments in Small Business Administration (SBA) guaranteed investment pools, for which the Authority's policy focuses on the following limits:

- a) 80% or more of the SBA investments are to be at variable rates.
- b) Limited to a maximum premium of 102%.
- c) Total amount of purchases with interest caps are to be less than 30% of total SBA investments.

Investment Credit Risk—The Authority has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a) U.S. Treasury bills, notes, and bonds and U.S. government agency securities with certain ratings and maturity limitations.
- b) Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association, or credit union located in the state of Oklahoma.
- c) Certain ratings and maturity limitations, negotiable certificates of deposit, banker's acceptances, and commercial paper.
- d) Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e) Collateralized repurchase agreements and tri-party repurchase agreements.
- f) Money market mutual funds and short-term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in OK INVEST should be limited to obligations of the U.S. government and its agencies and instrumentalities, collateralized certificates of deposit, tri-party repurchase agreements collateralized at 100% with the collateral held by a third party in the name of the Oklahoma State Treasurer, and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or agency securities and repurchase agreements related to such securities. OK INVEST is not insured or guaranteed by the State, the Federal Deposit Insurance Corporation, or any other government agency.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

At June 30, 2011, the Authority's investments in obligations not directly guaranteed by the U.S. government were as follows, none of which were rated, except for the University of Oklahoma general revenue bonds, which were rated AA, and the highway capital improvement revenue bonds, which were rated AA:

<u>Description</u>	<u>Institution</u>	<u>Amount</u>	<u>Maturity***</u>
OK INVEST	State Treasurer	\$ 5,704,948	N/A
ODFA revenue bond**	ODFA	9,999,000	4/1/2031
ODFA Ardmore Development Authority note**	ODFA	743,338	10/1/2013
ODFA Woodward Industrial Foundation note**	ODFA	1,320,247	6/1/2020
ODFA Muskogee City— County Port Authority Note #1**	ODFA	1,192,070	10/1/2028
ODFA Muskogee City— County Port Authority Note #2**	ODFA	683,524	4/1/2033
University of Oklahoma general revenue bonds	Board of Regents of the University of Oklahoma	2,145,000	7/1/2019– 7/1/2022
Highway capital improvement revenue bonds	Oklahoma Capitol Improvement Authority	1,000,000	7/1/2019
SBA investment pools*	SBA	<u>11,595,703</u>	9/25/2011– 2/25/2032
		<u>\$ 34,383,830</u>	

* The SBA investments are indirectly guaranteed by the U.S. government.

** Investments are secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund, which has an AA rating.

*** The weighted average maturity of the University of Oklahoma general revenue bonds, the highway capital improvement revenue bonds, the SBA investment pools, and total investments (excluding investments in OK INVEST) was 9.4, 8.0, 15.8, and 16.0 years, respectively.

N/A Not applicable.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

At June 30, 2010, the Authority's investments in obligations not directly guaranteed by the U.S. government were as follows, none of which were rated, except for the University of Oklahoma general revenue bonds, which were rated AA-, and the highway capital improvement revenue bonds, which were rated AA:

<u>Description</u>	<u>Institution</u>	<u>Amount</u>	<u>Maturity***</u>
OK INVEST	State Treasurer	\$ 1,386,082	N/A
ODFA revenue bond**	ODFA	9,999,000	4/1/2031
ODFA Ardmore Development Authority note**	ODFA	1,024,296	10/1/2013
ODFA Woodward Industrial Foundation note**	ODFA	1,320,247	6/1/2020
ODFA Muskogee City— County Port Authority Note #1**	ODFA	1,247,685	10/1/2028
ODFA Muskogee City— County Port Authority Note #2**	ODFA	706,776	4/1/2033
University of Oklahoma general revenue bonds	Board of Regents of the University of Oklahoma	2,145,000	7/1/2019— 7/1/2022
Highway capital improvement revenue bonds	Oklahoma Capitol Improvement Authority	1,000,000	7/1/2019
SBA investment pools*	SBA	<u>13,706,607</u>	9/25/2010— 2/25/2032
		<u>\$ 32,535,693</u>	

* The SBA investments are indirectly guaranteed by the U.S. government.

** Investments are secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund, which has an AA rating.

*** The weighted average maturity of the University of Oklahoma general revenue bonds, the highway capital improvement revenue bonds, the SBA investment pools, and total investments (excluding investments in OK INVEST) was 10.4, 9.0, 16.2, and 16.6 years, respectively.

N/A Not applicable.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

Concentrations of Investment Credit Risk—The Authority has no limit on the amount it may invest in any one issuer. The Authority had the following concentrations of credit risk at June 30, 2011: 29.1%, or \$9,999,000, invested in an Oklahoma Development Finance Authority (ODFA) revenue bond, and 33.7%, or \$11,595,703, invested in SBA investment pools. The Authority had the following concentrations of credit risk at June 30, 2010: 30.73%, or \$9,999,000, invested in an ODFA revenue bond, and 42.13%, or \$13,706,607, invested in SBA investment pools.

The Authority's investments are reported at fair value in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in the State Treasurer's internal investment pool, OK INVEST are recorded at cost, which approximates fair value due to the short-term nature and use of the cash accounts. Investments in SBA investment pools are reported based on quoted market prices received from pricing services or the use of internally developed discounted cash flow models utilizing current yields and estimated prepayment speeds. The ODFA revenue bond; the ODFA Ardmore Development Authority note; the ODFA Woodward Industrial Foundation note; the ODFA Muskogee City—County Port Authority Note #1; the ODFA Muskogee City—County Port Authority Note #2; the University of Oklahoma general revenue bonds; and the highway capital improvement revenue bonds have been recorded at cost, which approximates fair value due to the variability of interest rates and/or the fact the fixed interest rates are not significantly different than current market rates offered on instruments with similar credit risks and maturities.

On September 16, 2009, the Authority purchased for investment \$1,000,000 of highway capital improvement revenue bonds issued by the Oklahoma Capitol Improvement Authority. The bonds mature on July 1, 2019. The bonds bear interest at 5.04%, which is payable on January 1 and July 1. Interest and principal will be repaid from the revenues specifically pledged to their payment by the Oklahoma Capitol Improvement Authority, as defined in the bond agreement.

On February 19, 2009, the Authority purchased for investment \$2,145,000 of general revenue bonds issued by the Board of Regents of the University of Oklahoma. The bonds begin to mature on July 1, 2019, through July 1, 2022. The bonds bear interest at 5.28%, which is payable on January 1 and July 1. Interest and principal will be repaid from "pledged revenues" of the University of Oklahoma, as defined in the bond agreement.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

Related-Party Investments

On September 12, 1996, the Authority purchased for investment a revenue bond issued by the ODFA, a public trust and instrumentality of the State. Both the Authority and the ODFA share common board members and employees. The principal amount of the bond is \$9,999,000 and was scheduled to mature April 1, 2006, but has been extended to April 1, 2031, as stated in the extension agreement dated April 1, 2006. The bond bears interest at a variable rate equivalent to the Authority's cost of funds on its outstanding variable rate bond issues, adjusted quarterly. As of June 30, 2011 and 2010, the interest rate paid by the bond was 2.50%. The Authority can dispose of the bond at any time for a price equal to the outstanding principal plus interest accrued to the date of the sale. The bond is secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On October 9, 1998, the Authority purchased a \$3,220,000 note issued by the ODFA. The proceeds were then loaned to the Ardmore Development Authority by the ODFA for construction of a tire distribution warehouse. The note originally paid interest at Prime less 2%, adjusted quarterly. Effective July 25, 2000, the terms of the note were modified to provide for a fixed interest rate of 7.50% with monthly payments of \$29,021 beginning August 1, 2000, through October 1, 2013. The note is secured by a first real estate mortgage and a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On June 4, 1999, the Authority issued a \$1,395,856 note to the ODFA. The proceeds were then loaned to the Woodward Industrial Foundation by the ODFA for use in building a spec building as part of the ODFA's Spec Building Program. The note previously paid interest at Prime less 2%, adjusted quarterly. Interest-only payments were to be made for the first 72 months beginning July 1, 1999. The first monthly installment of principal and interest was originally due on July 1, 2005, with an original final scheduled maturity of June 1, 2020. The note has been amended numerous times to extend the maturity date and the interest-only payment period and to reduce the interest rate. The latest amendment, effective September 19, 2011, extends the interest-only period through January 31, 2012, at 4%. On February 1, 2012, the note will be placed on a 15-year amortization at a fixed interest rate of 5.50% for the first 5 years, 6% for the next 5 years, and 6.50% for the remaining 5 years. The note is secured by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH DEPOSITS AND INVESTMENT RISK, CONTINUED

Related-Party Investments, Continued

On September 26, 2003, the Authority issued a \$1,500,000 note to the ODFA. The proceeds were then loaned to the Muskogee City—County Port Authority by the ODFA for use in constructing a multi-use safe harbor. The note pays interest at Prime less 1%, adjusted annually, which at June 30, 2011 and 2010, was 2.25%. The first monthly installment of \$7,113 was due on November 1, 2003, with a final scheduled maturity of October 1, 2028. The note is secured by a security interest on all revenues of the Muskogee City—County Port Authority and by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

On March 20, 2008, the Authority issued a \$750,000 note to the ODFA. The proceeds were then loaned to the Muskogee City—County Port Authority by the ODFA for use in funding increased project costs related to a multi-purpose facility. The note pays interest at Prime less 1% percent, adjusted annually, with a 2.50% floor. The interest rate at both June 30, 2011 and 2010, was 2.50%. The first monthly installment of \$4,063 was due on May 1, 2008, with a final scheduled maturity of April 1, 2033. The note is secured by a security interest on all revenues of the Muskogee City—County Port Authority and by a financial guarantee insurance policy issued by the Oklahoma Credit Enhancement Reserve Fund.

The Authority and the ODFA have an SBA investment pool participation agreement in place, whereby the Authority from time to time will sell and repurchase an undivided interest in their SBA investment pool, limited to \$10,000,000, to the ODFA. The interest rate paid to the ODFA under this participation agreement approximated 1.63% and 2.29% in 2011 and 2010, respectively. No sold participation balance to the ODFA existed as of June 30, 2011 or 2010.

(4) NOTES RECEIVABLE

The Authority's notes receivable consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Industrial project loans	\$ 15,854,454	18,949,583
Less current portion	<u>(2,380,913)</u>	<u>(2,018,476)</u>
Long-term notes receivable	13,473,541	16,931,107
Allowance for doubtful accounts	<u>(77,730)</u>	<u>(851,730)</u>
Net long-term notes receivable	<u>\$ 13,395,811</u>	<u>16,079,377</u>

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) NOTES RECEIVABLE, CONTINUED

In April 2009, the Authority began the process of foreclosing on a loan which had a principal balance of \$997,880 on June 30, 2011 and 2010. The loan is secured by a first real estate mortgage, and the Authority commissioned an appraisal on the value of the real estate securing the loan. Based on a September 18, 2009, appraisal, the Authority's management believes the estimated value of the real estate securing the loan is sufficient to cover the loan's principal balance at June 30, 2011 and 2010. As of October 19, 2011, the loan was still in the process of foreclosure. At June 30, 2011 and 2010, non-accrual loans totaled \$1,148,507 and \$1,929,855, respectively, and there were no loans past due over 90 days accruing interest.

(5) PENSION PLAN

General Description

As provided by state law, the Authority participates in the Oklahoma Public Employees Retirement System, a component unit of the State. This system covers substantially all state and county employees and extends to local entities if they elect to participate. The system is a multi-employer, cost-sharing plan.

The retirement plan, administered by the system, is a defined benefit, contributory plan that provides participants with retirement, death, and disability benefits. Pension benefit provisions were established by statute, and benefit provisions are amended by the Oklahoma Legislature. Cost-of-living adjustments are provided to plan members and beneficiaries at the discretion of the Oklahoma Legislature.

A separately issued independent audit report for the plan may be obtained by writing:

Oklahoma Public Employees Retirement System
5801 N. Broadway Extension, Suite 400
Oklahoma City, OK 73118

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) PENSION PLAN, CONTINUED

Funding Policy

The contribution rates for the plan are established by the Oklahoma Legislature and are not based on an actuarial calculation, which is performed to determine the adequacy of the rate.

The Authority makes contributions to the plan on behalf of its employees based on their gross salary earned (excluding overtime) for the fiscal year ended June 30. The contribution rates in effect for June 30 are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Authority	15.50%	15.50%	14.50%
Authority employees	3.50%	3.50%	3.50%

In addition to the required employee participation described above, the plan allows employees to make an irrevocable election to participate in the plan's Step-Up election. The Step-Up election requires employees, who choose to do so, to make an additional annual contribution to the plan equal to 2.91% of compensation. In exchange for the additional contribution, the employee's final benefit computation factor used in calculating the retiree's benefit will be increased, or "stepped-up," from the standard 2% factor to 2.5%. The 2.91% factor is actuarially determined and could change in the future.

Contributions to the plan by the Authority for the years ended June 30, 2011, 2010, and 2009, were \$29,416, \$30,068, and \$30,290, respectively. These contributions represent 100% of the contribution required.

Previously enacted legislation states that the employer contribution rate will increase 1% to the limit of 16.5% in fiscal year 2012.

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LEASED PROPERTY

The Authority owns a building and land, which it leases under a short-term operating lease (annual lease terms) expiring in the next year.

The leased building had a gross cost of \$105,000 and is being depreciated over its estimated useful life of 40 years using the straight-line method of depreciation. Depreciation expense was \$2,625 for each of the years ended June 30, 2011 and 2010.

A summary of changes in leased property for the years ended June 30 is as follows:

	2011			
	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at End of Year</u>
Cost:				
Land	\$ 75,000	-	-	75,000
Building	105,000	-	-	105,000
	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Accumulated depreciation on building	<u>(47,250)</u>	<u>(2,625)</u>	<u>-</u>	<u>(49,875)</u>
Leased property, net	<u>\$ 132,750</u>	<u>(2,625)</u>	<u>-</u>	<u>130,125</u>
	2010			
	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at End of Year</u>
Cost:				
Land	\$ 75,000	-	-	75,000
Building	105,000	-	-	105,000
	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>180,000</u>
Accumulated depreciation on building	<u>(44,625)</u>	<u>(2,625)</u>	<u>-</u>	<u>(47,250)</u>
Leased property, net	<u>\$ 135,375</u>	<u>(2,625)</u>	<u>-</u>	<u>132,750</u>

See Independent Auditors' Report.

OKLAHOMA INDUSTRIAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) LOAN COMMITMENTS

There were no outstanding loan commitments as of June 30, 2011 or 2010.

(8) RISK MANAGEMENT

The Authority utilizes the Risk Management Division of the State for property insurance. Comprehensive general liability and personal injury liability are also covered.

(9) RELATED-PARTY TRANSACTIONS

The Authority shares office space, personnel, and common board members with the ODFA. Such costs are being shared and billed to the Authority and the ODFA at 40% and 60%, respectively.

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

Board of Directors
Oklahoma Industrial Finance Authority

We have audited the financial statements of the Oklahoma Industrial Finance Authority (the "Authority"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 19, 2011. Our report included an explanatory paragraph disclaiming an opinion on management's discussion and analysis. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

(Continued)

**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, CONTINUED**

Compliance and Other Matters

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*.

This report is intended solely for the information and use of the Board of Directors, management, and the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 19, 2011