

**TULSA COUNTY HOME FINANCE AUTHORITY**

**Report on Examination of Financial Statements**

**For the Years Ended December 31, 2011 and 2010**

# TULSA COUNTY HOME FINANCE AUTHORITY

## Table of Contents

	<u>Page (s):</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Net Assets	2
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to the Financial Statements	5 - 10
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 - 12

# GLENN ELLIOTT & Associates inc.

Certified Public Accountants



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## Independent Auditors' Report

To the Board of Trustees of the  
Tulsa County Home Finance Authority

We have audited the accompanying financial statements of the business-type activities of TULSA COUNTY HOME FINANCE AUTHORITY ("the Authority"), a component unit of Tulsa County, Oklahoma, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Authority's financial statements as listed in the table of contents. 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 business-type activities of TULSA COUNTY HOME FINANCE AUTHORITY as of December 31, 2011 and 2010, and the respective changes in financial position, and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2012, on our consideration of TULSA COUNTY HOME FINANCE AUTHORITY'S internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) Standard 34.

*Glenn Elliott & Associates, Inc.*

Tulsa, Oklahoma  
June 11, 2012

TULSA COUNTY HOME FINANCE AUTHORITY  
 Statements of Net Assets  
 Proprietary Fund  
 December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current assets:		
Cash and cash equivalents (Notes A and B)	\$ 2,957,296	\$ 1,977,302
Total current assets	2,957,296	1,977,302
Inventory, FHA demonstration rental housing program		<u>12,000</u>
Total assets	<u>\$ 2,957,296</u>	<u>\$ 1,989,302</u>

Liabilities and Net Assets

Current liabilities:		
Mortgage loans payable, current portion		<u>\$ 130,306</u>
Total current liabilities		<u>130,306</u>
Net assets:		
Net assets, unrestricted	<u>\$ 2,957,296</u>	<u>1,858,996</u>
Total liabilities and net assets	<u>\$ 2,957,296</u>	<u>\$ 1,989,302</u>

The accompanying notes are an integral part of the financial statements.

TULSA COUNTY HOME FINANCE AUTHORITY  
 Statements of Revenues, Expenses and  
 Changes in Net Assets  
 Proprietary Fund  
 For the Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Issuer and authority fees	\$ 143,867	\$ 210,202
Dividend income	181	1,692
Rents and fees, FHA demonstration rental program		37,119
Other income	104	1,170
Total operating revenues	144,152	250,183
Operating expenses:		
Professional fees, legal and accounting	71,800	58,750
Other professional fees, lobbyist	36,000	36,000
Target area study	9,300	5,000
Utilities	105	5,395
Administrative expenses, general fund		181,179
Repairs and maintenance		22,827
Property management fees		13,000
Insurance		9,085
Administrative expenses, FHA demonstration rental program		568
Property taxes		116
Total operating expenses	117,205	331,920
Operating income, before non-operating income and expenses	26,947	(81,737)
Non-operating income and expenses:		
Proceeds from conduit debt funds (Note E)	1,165,971	550,506
(Loss) on sale of assets	(37,674)	(136,157)
Conduit debt expenses	(56,944)	
Changes in net assets	1,098,300	332,612
Net assets, beginning of year	1,858,996	1,526,384
Net assets, end of year	\$ 2,957,296	\$ 1,858,996

The accompanying notes are an integral part of the financial statements.

TULSA COUNTY HOME FINANCE AUTHORITY  
 Statements of Cash Flows  
 Proprietary Fund  
 For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash received from sources	\$ 1,309,942	\$ 801,355
Cash paid to suppliers and conduit debt financing	(174,149)	(338,069)
(Loss) on asset sales	(37,674)	(136,157)
Interest and dividend income	181	1,692
Net cash provided by by operating activities	1,098,300	328,821
Cash flows from investing activities:		
Net (expenses) proceeds of sale of assets	(118,306)	228,610
Net cash (used in) provided by investing activities	(118,306)	228,610
Net increase in cash and cash equivalents	979,994	557,431
Cash and cash equivalents, beginning of year	1,977,302	1,419,871
Cash and cash equivalents, end of year	\$ 2,957,296	\$ 1,977,302
Reconciliation of change in net assets to net cash provided by operating activities:		
Changes in net assets	\$ 1,098,300	\$ 332,612
Changes in assets and liabilities:		
Decrease in accounts receivable		2,358
(Decrease) in accounts payable		(1,799)
(Decrease) in escrow deposits payable		(4,350)
Total changes in assets and liabilities		(3,791)
Net cash provided by operating activities	\$ 1,098,300	\$ 328,821

The accompanying notes are an integral part of the financial statements.

**TULSA COUNTY HOME FINANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
**As of and For the Years Ended December 31, 2011 and 2010**

**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Origins of the Authority**

The Tulsa County Home Finance Authority ("the Authority") is a public trust created under the laws of the State of Oklahoma. The Authority is operated for public purposes which functions by the terms of a trust indenture dated October 16, 1978. The Authority is a component unit of the County of Tulsa, Oklahoma.

The Authority was created for the primary purpose of providing mortgage funds for residential loans to qualified homebuyers and for certain multi-family housing projects in the County of Tulsa, Oklahoma. The Authority achieves its purpose through the issuance of revenue bonds. The bonds are not general obligations of the County of Tulsa, State of Oklahoma, Tulsa County Home Finance Authority, or any other political corporation, subdivision or agency thereof, but are special and limited conduit debt obligations payable by the Authority solely and only from payments received from the mortgage loans serviced by the lenders, the specific revenues, funds and assets pledged by the Authority, and the revenues and funds derived from the GNMA/FNMA securities, of the respective bond issue(s).

The net proceeds of the bond issues are invested in the following:

GNMA/FNMA certificates whereby various third parties make loans to borrowers, pool the loans, exchange the loan pools for participation certificates issued by GNMA/FNMA and sell the GNMA/FNMA certificates to the Authority

The ultimate beneficiary of the Authority is the County of Tulsa, Oklahoma, which is entitled solely to the benefits of the Authority as administered by the Trustees, and at the termination of the Authority, shall receive the residue of the trust estate.

**Financial Reporting Entity**

The Authority complies with GASB Statements No. 14, *The Financial Reporting Entity* and No. 39, *Determining Whether Certain Organizations are Component Units*. These Statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

In reviewing the operating environment of the Authority, it was determined that Tulsa County does not approve the Authority's budgets, is not liable for any operating deficits, does not provide any funding to the Authority, and is not legally responsible for the Authority's debt obligations. Tulsa County is the beneficiary of the Authority. However, it does not have the ability to access the economic resources received or held by the Authority without the Authority's approval. Because of these findings, the Tulsa County Home Finance Authority is considered a component unit of Tulsa County for financial reporting purposes.

TULSA COUNTY HOME FINANCE AUTHORITY  
Notes to the Basic Financial Statements  
As of and For the Years Ended December 31, 2011 and 2010

**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The basic financial statements provide information about the Authority's business-type activities. These financial statements are also often referred to as enterprise fund financial statements.

"Measurement Focus" is an accounting term used to describe *which* transactions and types of balances are recorded within the various financial statements. The expression, "Basis of Accounting", refers to *when* transactions or events are recorded regardless of the measurement focus applied.

Because of the "businesslike" characteristics of our operations, the accompanying financial statements report using the *economic resources measurement focus* and the *accrual basis of accounting*. The accounting objectives of the "economic resources" measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Under full accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows.

The Authority utilizes an enterprise fund to record its financial operating activities. In governmental accounting, the enterprise fund is used to account for operations that are financed and operated in a manner similar to private business or where the Board of Trustees has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the preparation of the financial Statements, to the extent that those standards do not conflict, with or contradict, guidance of the Governmental Accounting Standards Board. Governmental entities also have the option of following subsequent private-sector guidance in accounting for and reporting on its operations, subject to the same limitation.

The enterprise fund used by the Authority distinguishes operating *revenues* from *non-operating* items. Operating revenues and expenses generally result from investing and bond issue services in connection with the Authority's ongoing operations. The principal operating revenues are charges to bond issuer fees and the investment income from those fees. Operating expenses include the cost of bond issues and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, the unrestricted resources as they are needed. The Authority had no restricted resources at December 31, 2011 and 2010.

**TULSA COUNTY HOME FINANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
**As of and For the Years Ended December 31, 2011 and 2010**

**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued):**

**Cash and Cash Equivalents and Investments**

For purposes of the statements of net assets and statements of cash flows, the Authority considers all U.S. treasury money market accounts to be cash equivalents. Cash and cash equivalents consist of highly liquid depository accounts, with initial maturities of three months or less when purchased. For purposes of financial statement disclosures they are considered to be investments.

**Property and Equipment**

The Authority did not own any property and equipment at December 31, 2011 and 2010. The Authority's capitalization policy is to capitalize individual fixed assets with an acquisition cost of \$500 or greater.

**Income Tax**

The Authority, by statute, is exempt from Federal and State income taxes.

**Use of Estimates**

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 amounts could differ from those estimates.

**Advertising Costs**

The Authority expenses all advertising costs in the period in which they are incurred. For the years ended December 31, 2011 and 2010, the Authority did not incur any advertising expenses.

**(B) BANK DEPOSITS OF CASH INVESTMENTS:**

Bond indenture agreements and the Authority's trust instrument govern the investment policies of the Authority. Allowable investments include money market fund accounts and other direct obligations of the U.S. government and its agencies whose debt instruments are guaranteed by the U.S. government. The Authority's deposits of cash and investments of \$2,957,296 at December 31, 2011 consist of U.S. Treasury money market accounts carried at market value, with weighted average days to maturity of 48 days, which are uninsured.

While the Authority has a large amount of investments that are considered uninsured deposits, these funds are invested in a U.S. treasury security money market fund, the underlying investments of which are backed by the full faith and credit of the U.S. government.

**Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. As of December 31, 2011, no investments were exposed to custodial credit risk.

TULSA COUNTY HOME FINANCE AUTHORITY  
Notes to the Basic Financial Statements  
As of and For the Years Ended December 31, 2011 and 2010

**(B) BANK DEPOSITS OF CASH INVESTMENTS - (Continued):**

**Credit Risk**

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. As mentioned previously, the Authority's investment policies are dictated by their trust instrument. As such, the Authority only invests in U.S. treasury money market accounts whose underlying securities are backed by the full faith and credit of the U.S. government. The Authority believes that they have mitigated credit risk to the highest degree possible.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority holds excess cash in a U.S. Treasury money market mutual fund that consists of short-term U.S. treasury obligations, so changes in interest rates do not have a material impact on the value of the account.

**Concentration of Credit Risk**

Concentration of credit risk is required to be disclosed by GASB Statement 40. GASB Statement 40 requires disclosure when the percent is 5% or more in any one issuer. External investment pools and obligations of the U.S. government are exempt from concentration risk disclosures.

**Investments**

The Authority's investment policy and Oklahoma state statutes restricts investments to direct obligations of the United States government and money market mutual funds with portfolios of securities guaranteed by the U.S. government.

**(C) CONDUIT DEBT OBLIGATIONS:**

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

The bonds issued by the Authority are conduit debt and are not the legal obligation of the Authority, County, State nor any political subdivision and are payable solely from the pledged revenues. Accordingly, the Authority has elected to exclude both the conduit debt as a liability and the related assets from their statements of net assets. The net proceeds of the various conduit debt obligation bond issues were used to provide financing for qualifying residences through the purchase of mortgage-backed certificates or eligible residential mortgage loans, or to provide interim and permanent financing for multi-family construction projects, and to establish debt service reserves as required by the various trust indentures.

**TULSA COUNTY HOME FINANCE AUTHORITY**  
**Notes to the Basic Financial Statements**  
**As of and For the Years Ended December 31, 2011 and 2010**

**(C) CONDUIT DEBT OBLIGATIONS – (Continued):**

The bond indentures provide that principal and interest are collateralized by pledges of all loans acquired, all revenues and collections with respect to such loans, all funds established by the indentures and by such other guarantees including bond insurance for a portion of the outstanding principal balance as may be required under each specific indenture.

The Bank of New York Mellon Trust Co. is trustee for the following series of mortgage revenue bond issues/conduit debt obligations: 1994 Series A.

Bank of Oklahoma is the trustee for the following series of mortgage revenue bond issues/conduit debt obligations: 2001 Series Refunding (Waterford), 2002 Series B, 2003 Series B, and 2006 Series C.

The 2001 Series Refunding (Waterford) is a multi-family project series of revenue bonds. All other bond series are for the purpose of providing financing for single family residences. Any excess amounts remaining in any fund or account after full payment of the bond liability, fees, trustee expenses and other charges, shall be paid to the Authority for single family bonds and paid to the project owner for multi-family bonds.

At December 31, 2011, conduit debt consists of the following:

**Single Family Mortgage Revenue Bonds:**

1994-Series A, due 2023, interest at 6.67%	\$ 289,523
2002-Series B, due 2033, interest at 6.5% to 5.85%	3,406,300
2003-Series B, due 2036, interest at variable rates	10,113,548
2006-Series C, due 2038, interest at 5.25%	<u>17,563,625</u>
Total single family mortgage revenue bonds	<u>31,372,996</u>

**Multi-family Mortgage Revenue Bonds:**

Waterford Apartments-2001 Refunding Series, due 2031, interest at variable rates	<u>10,490,000</u>
Total multi-family mortgage revenue bonds	<u>10,490,000</u>
Total Conduit Debt Obligations	<u>\$ 41,862,996</u>

The current year proceeds from conduit debt funds of \$1,165,971 were related to the redemption of the 1988 Series A, 2001 Series B and F, 2005 Series B, 2006 Series A, 2007 Series B and 2009 Single Family Mortgage Revenue Bonds, conduit debt obligations. The effect of these transactions was an increase in the balance of the Authority's cash and cash equivalents on the statement of net assets at December 31, 2011.

TULSA COUNTY HOME FINANCE AUTHORITY  
Notes to the Basic Financial Statements  
As of and For the Years Ended December 31, 2011 and 2010

**(F) CONTRACTS FOR SERVICE:**

The Authority has entered into "origination and servicing agreements" with various banks, savings and loan associations, mortgage companies and similar financial institutions to originate and service the mortgage loans being funded by the Authority from the various conduit debt obligation bond issues. The agreements provide that the loans must meet certain criteria relating to maximum loan amount, interest rates, income requirements and insurance requirements.

**(G) SUBSEQUENT EVENTS AND DATE OF MANAGEMENT'S REVIEW:**

Subsequent events were evaluated through June 11, 2012, which is the date that the financial statements were available to be issued.



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**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**

To the Board of Trustees of the  
Tulsa County Home Finance Authority

We have audited the financial statements of the business-type activities of TULSA COUNTY HOME FINANCE AUTHORITY, a component unit of Tulsa County, Oklahoma, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the TULSA COUNTY HOME Authority's financial statements and have issued our report thereon dated June 11, 2012. We conducted our audits 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 Authority did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

**Internal Control over Financial Reporting**

Management of Tulsa County Home Finance Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 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 over such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**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

**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 (Continued):**

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 audits, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Glenn Elliott & Associates, Inc.*

Tulsa, Oklahoma  
June 11, 2012