Norman Tax Increment Finance Authority

Financial Statement

FYE June 30, 2012

NORMAN TAX INCREMENT FINANCE AUTHORITY

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COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Honorable Mayor and City Council
Norman Tax Increment Finance Authority
Norman, Oklahoma

We have audited the accompanying financial statements of the governmental activities and major fund of the Norman Tax Increment Finance Authority (the "NTIF"), a blended component unit of the City of Norman, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the NTIF's basic financial statements. These financial statements are the responsibility of the NTIF's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of the Norman Tax Increment Finance Authority, as of June 30, 2012, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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.

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In accordance with *Government Auditing Standards,* we have also issued our report dated November 28, 2012, on our consideration of the NTIF'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* and should be considered in assessing the results of our audit.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 28, 2012

NORMAN TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government
	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,400,666
Taxes receivable	528,733
Total current assets	1,929,399
Non-current assets:	
Restricted cash and cash equivalents	5,865,269
Unamortized bond issue costs	350,073
Capital assets not subject to depreciation	2,848,908
Capital assets, net	13,076,933
Total non-current assets	22,141,183
Total assets	24,070,582
LIABILITIES	
Current liabilities:	
Note payable	814,562
Total current liabilities	814,562
Non-current liabilities:	
Note payable	5,360,591
Total non-current liabilities	5,360,591
Total liabilities	6,175,153
NET ASSETS	
Invested in capital assets, net of related debt	9,750,688
Restricted for debt service	5,865,269
Unrestricted	2,279,472
Total net assets	$ 17,895,429

See notes to financial statements.

NORMAN TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Function/Programs	Expenses	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities
Primary government			
Governmental activities:			
City controller	$ 8,903	$ -	$ (8,903)
Public works	132,906	5,566,599	5,433,693
Interest on long-term debt	324,606	-	(324,606)
Total primary government	466,415	5,566,599	5,100,184
General revenues:			
Taxes:			
Sales taxes - restricted			$ 2,326,782
Sales taxes - economic development - restricted			465,355
Property taxes - restricted			770,412
Investment earnings			2,972
Transfers			-
Total general revenues and transfers			3,565,521
Change in net assets			8,665,705
Net assets - beginning			9,229,724
Net assets - ending			$ 17,895,429

See notes to financial statements.

NORMAN TAX INCREMENT FINANCE AUTHORITY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

		Capital Projects
ASSETS		
Cash and cash equivalents	$	1,400,666
Taxes receivable		528,733
Restricted Assets:		
Cash and cash equivalents		5,865,269
Total assets	$	7,794,668
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable and other accrued liabilities		-
Total liabilities		-
FUND BALANCES		
Restricted		7,773,924
Assigned		20,744
Total fund balances		7,794,668
Total liabilities and fund balances	$	7,794,668
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		15,925,841
Bond issue costs are not available to pay for current-period expenditures and, therefore, are not recorded in the funds.		350,073
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(6,175,153)
Net assets of governmental activities	$	17,895,429

See notes to financial statements.

NORMAN TAX INCREMENT FINANCE AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Capital Projects
Revenues:	
Sales taxes	$ 2,326,782
Sales taxes - economic development	465,355
Property taxes	770,412
Investment earnings	2,972
Total revenues	3,565,521
Expenditures:	
Current:	
City controller	8,903
Capital outlay	2,170,624
Debt service:	
Interest and fiscal charges	724,606
Total expenditures	2,904,133
Excess (deficiency) of revenues over (under) expenditures	661,388
Other financing sources (uses):	
Debt proceeds	785,699
Net other financing sources (uses)	785,699
Net change in fund balances	1,447,087
Fund balances, July 1, 2011	6,347,581
Fund balances, June 30, 2012	$ 7,794,668

See notes to financial statements.

NORMAN TAX INCREMENT FINANCE AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$ 1,447,087
Contributed capital assets (land, buildings and infrastructure) and other miscellaneous capital asset transactions recorded in government-wide financial statements but not recorded in fund level financial statements	5,566,599
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	2,058,310
The issuance of long-term debt provides current financial resources to governmental funds	(785,699)
Debt service principal retirement expensed in fund level financial statements but treated as reduction in outstanding debt in government-wide financial statements	400,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the govenmental funds	(20,592)
Change in net assets of governmental activities	$ 8,665,705

See notes to financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Norman Tax Increment Finance Authority (the "NTIF") conform to accounting principles generally accepted in the United States of America for state and local governments. Generally accepted accounting principles for municipalities are defined as those principles promulgated by the Governmental Accounting Standards Board ("GASB"). Business-type activities and enterprise funds apply Financial Accounting Standards Board ("FASB") and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict statements and GASB pronouncements, in which case GASB prevails. The following represent the more significant accounting and reporting policies and practices of the NTIF:

Reporting Entity - The Norman Tax Increment Finance Authority ("NTIF") was established July 11, 2006. Activities of the NTIF include financing Tax Increment Financing District #2 – University North Park. The governing body of the NTIF is the same as the City or Norman's (the "City") governing body. The City is the sole beneficiary of the NTIF and receives all trust properties upon termination. The City maintains all accounting records. The NTIF is presented as a governmental fund

Basis of presentation –The NTIF follows Governmental Accounting Standards Board ("GASB") Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for States and Local Governments" and related pronouncements in the preparation of its financial statements.

Government-wide and fund financial statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation – The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements with the exception of agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Sales taxes, excise taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the NTIF.

The NTIF reports the following major governmental funds:

Capital Projects Fund - The Capital Projects Fund is used to account for all major capital improvements which have been financed by designated resources, except those accounted for in proprietary funds.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments-in-lieu of taxes and other charges between the government's enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Accounting Policies – The NTIF's significant accounting policies related to the following financial statement categories are summarized below:

Assets, Liabilities, and Fund Equity

a. *Cash and Cash Equivalents* - The NTIF considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

b. *Pooled Cash and Investments* - The City Charter requires all cash belonging to the NTIF to be placed in the custody of the Financial Services Department of the City. A "Pooled Cash" concept is used in maintaining the cash and investment accounts in the accounting records. Under this method, all cash is pooled for investment purposes and each fund has equity in the pooled amounts. Investments are allocated to the individual participating funds based upon a percentage determined by the Financial Services Department of the City. An interfund receivable/payable is recognized if the allocation of investments to a particular fund exceeds the fund's pooled cash amount before the allocation of the pooled investments.

Purchases and maturities of the pooled investments, as reported in the fund's statement of cash flows, are allocated to the participating proprietary funds based on their portion of total pooled investments.

c. *Receivables and payables* – In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

In the governmental fund financial statements, receivables are recorded when they are both measurable and available.

d. *Interfund Receivables and Payables* – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / due from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

e. *Capital Assets* – Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $2,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, the majority of which generally consist of donated land and infrastructure which is recorded in the governmental funds and donated water and sewer distribution systems which are recorded in the proprietary funds, are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	40 – 65 years
Infrastructure	25 – 50 years
Improvements other than buildings & infrastructure	10 – 20 years
Machinery and equipment	3 – 20 years
Vehicles	3 – 7 years

f. *Long-term Debt* – In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, issuance costs and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

i. *Fund Equity* – In the government-wide financial statements, equity is classified as net assets and displayed in three components:

   1. *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.

   2. *Restricted net assets* – Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. At June 30, 2012, NTIF had $5,865,269 in restricted net assets which represented funds held by a trustee for loan related purposes.

   3. *Unrestricted net assets* – All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

   When both restricted and unrestricted net assets are available for use, generally it is the NTIF's policy to use restricted resources first. For projects funded with tax-exempt debt proceeds and other sources, the debt proceeds are used first.

   Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

   a) *Nonspendable* – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

   b) *Restricted* – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

   c) *Committed* – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the NTIF through formal action of the highest level of decision making authority. To commit these funds, formal action is required by the NTIF Council either by resolution or ordinance that identifies the specific circumstances under which the resources may be expended.

   d) *Assigned* – Includes fund balance amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the City Council. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.

   e) *Unassigned* – Includes the residual balance of the General Fund that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes with the General Fund.

Revenues, Expenditures and Expenses

a. *Property Tax Revenue* - Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The Tax Assessor's office bills and collects the property taxes and remits to the City its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except for those received within 60 days of year end, which are recognized as revenues as of June 30, 2012 in both the government-wide and fund financial statements.

b. *Sales Taxes* - Sales taxes are collected by vendors and required to be remitted to the State of Oklahoma by the 20th of the month following collection. The tax is then paid to the City by the 10th of the next month. A two month lag exists between collection by the vendor and payment to the City by the State. Revenue received in July and August from sales made in May and June, respectively, is available for prior year expenses and is accrued in both the government-wide and fund financial statements.

c. *Investment Earnings* - Investment earnings on pooled cash and investments are allocated on a pro-rata basis to the City's funds based on the percentage of each fund's average month-end pooled cash balance.

Use of Estimates **-** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets – The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $6,175,153 difference are as follows:

Notes payable	$ 6,175,153
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ 6,175,153

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities – The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net *changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this $2,058,310 difference are as follows:

Capital outlay	$ 2,170,624
Depreciation expense	(112,314)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ 2,058,310

Another element of that reconciliation states that "Contributed capital assets (land, buildings, and infrastructure) and other miscellaneous capital asset transactions recorded in government-wide financial statements but not recorded in fund level financial statements." The details of this $5,566,599 difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources	$ 5,566,599

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in the governmental funds." The details of this $20,592 difference are as follows:

Amortization of bond issue costs	$ (20,592)
Net adjustment to increase net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (20,592)

3. DETAIL NOTES ON ALL FUNDS

Deposits and Investments

Custodial Credit Risk - Deposits – Custodial credit risk is the risk that in the event of a bank failure, the NTIF's deposits may not be returned to it. The NTIF does not have a deposit policy for custodial credit risk. As of June 30, 2012, none of the NTIF's bank balance of $1,454,063 was exposed to custodial credit risk. As of June 30, 2012, the NTIF carrying balance of these deposits was $1,400,666.

Interest Rate Risk – As of June 30, 2012, the NTIF had no investments subject to interest rate risk.

Credit Risk – As of June 30, 2012, the NTIF had no investments subject to credit risk.

Concentration of Credit Risk – As of June 30, 2012, the NTIF had no investments subject to concentration of credit risk.

Custodial Credit Risk –Investments – As of June 30, 2012, the NTIF had no investments subject to custodial credit risk.

Capital Assets – Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	$ 5,697,420	$ 2,170,623	$ (5,019,135)	$ 2,848,908
Capital assets, being depreciated:				
Infrastructure	2,705,601	10,585,735	-	13,291,336
Totals at historical cost	8,403,021	12,756,358	(5,019,135)	16,140,244
Less accumulated depreciation				
Infrastructure	(102,089)	(112,314)	-	(214,403)
Total accumulated depreciation	(102,089)	(112,314)	-	(214,403)
Governmental activities capital assets, net	$ 8,300,932	$ 12,644,044	$ (5,019,135)	$ 15,925,841

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public works	$112,314

Long-Term Debt

Notes Payable - Notes payable as of June 30, 2012 are as follows:

$14,560,000 Norman Tax Increment Finance Authority Tax Increment Revenue Note, Taxable Series 2009, due in annual payments ranging from $400,000 to $2,820,000 beginning September 1, 2011 through September 1, 2028. The loan has a variable interest rate.	6,175,153
$8,250,000 Norman Tax Increment Finance Authority Tax Increment Revenue Note, Taxable Series 2011, due in annual payments beginning July 1, 2012 through June 30, 2031. The loan has a variable interest rate.	-
Total notes payable	$ 6,175,153

Annual debt service requirements to maturity for notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2013	$ 814,562	$ 654,220	$ 1,468,782
2014	842,159	633,561	1,475,720
2015	844,774	711,459	1,556,233
2016	872,406	814,677	1,687,083
2017	900,055	907,127	1,807,182
2018 – 2022	5,290,637	3,900,274	9,190,911
2023 – 2027	6,699,572	2,528,991	9,228,563
2028 – 2029	5,758,852	507,877	6,266,729
Less unfund note	(15,847,864)	-	(15,847,864)
Total	$ 6,175,153	$ 10,658,186	$ 16,833,339

f. *Applicability of Federal Arbitrage Regulations* – Debt issuances of the NTIF issued after the Tax Reform Act of 1986 are subject to the federal arbitrage regulations. The arbitrage rebate regulations require that all earnings from the investment of gross proceeds of a bond issue in excess of the amount that could have been earned had the yield on the investment been equal to the yield on the bonds be remitted to the federal government. These carry strict penalties for noncompliance including taxability of interest retroactive to the date of the issue. The NTIF's management believes the City is in compliance with these rules and regulations.

Changes in Long-term Liabilities – Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable	$ 5,789,454	$ 785,699	$ (400,000)	$ 6,175,153	$ 814,562
Government activity long-term liabilities	$ 5,789,454	$ 785,699	$ (400,000)	$ 6,175,153	$ 814,562

4. FUND BALANCE

Effective July 1, 2010, the NTIFA implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The following table shows the fund balance classifications as shown on the governmental funds balance sheet in accordance with GASB No. 54 as of June 30, 2012:

FUND BALANCES	
Restricted:	
Other capital projects	$ 7,773,924
Assigned:	
Other capital projects	20,744
Total fund balances	$ 7,794,668

5. COMMITMENTS AND CONTINGENCIES

Construction In Progress - Construction in progress is authorized by actions of the City Council (governing body). A summary of construction in progress as of June 30, 2012 is as follows:

	Total Construction In Progress	Total Project	Remaining To Complete
General Government	$ 2,848,908	$ 20,690,801	$ 17,841,893
	$ 2,848,908	$ 20,690,801	$ 17,841,893

The NTIF also contributes to certain State and Federal aid projects which are administered by the State of Oklahoma Department of Highway. The NTIF is billed by the Highway Department for these projects at various stages of completion, subject to Federal audits of the project costs.

6. RECENTLY ISSUED ACCOUNTING STANDARDS

The following accounting standards have been recently issued and will be adopted as applicable by the City in future years.

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged.

Independent Auditors' 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*

Honorable Mayor and Members of City Council
Norman Tax Increment Finance Authority
Norman, Oklahoma

We have audited the financial statements of the governmental activities and major fund of the Norman Tax Increment Finance Authority (the "NTIF"), a blended component unit of the City of Norman, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the NTIF's basic financial statements and have issued our report thereon dated November 28, 2012. Our report was modified to include an explanatory paragraph stating that the NTIF has not presented Management's Discussion and Analysis. 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.

Internal Control Over Financial Reporting

Management of the NTIF is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the NTIF'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 NTIF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the NTIF'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the NTIF's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 NTIF'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 of the governing body, management and others within the NTIF and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 28, 2012