



October 11, 2019

RSM US LLP

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Mr. Mercer,

In accordance with our engagement letter dated May 13, 2019, we have completed our Special Audit to the Tax Increment Financing District No. 2 Fund ("University Park Fund" or "UNP TIF"), the objectives of which are noted below. Additionally, the specific procedures performed are described below, as well as the results of our review. This letter serves as the final work product for this engagement. Additional details over the transactions tested can be provided upon request.

Scope and Objectives

The work product of our Special Audit is to provide a report with respect to UNP TIF as contemplated by the above referenced engagement letter and Section II(5)(b) of the Memorandum of Understanding Concerning University North Park Project Plan and Increment District (the "MOU"), assist and advise you with this project, which stated in pertinent part:

- To verify the amount of funds available for authorized Project Costs and in furtherance of the objectives of this MOU and the goals of transparency and accountability expressed in the Project Plan and the Trust Indenture, the City and the TIF Trust will engage independent certified public accountants to perform a special audit of the TIF Trust and the City UNP TIF Account with emphasis on compliance with the Operating Procedures and Practices to be employed by the City and the TIF Trust to implement the Project Plan and administer the UNP TIF District, including collection of incremental sales and ad valorem tax revenues, deposits and transfer of funds in various accounts maintained by the TIF Trust at commercial banks, verifying all relevant calculations, including transfer and annual growth rate adjustments, payment of fees, and expenditure of funds for payment of authorized Project Costs.

The procedures that we performed and the results of those procedures are described in this report. The objective of the Special Audit was to report on the results of our procedures that we performed, including any findings, and not to express an opinion on whether the City and the TIF Trust complied with the Operating Procedures and Practices. Accordingly, we do not express an opinion.

Summary Results

1. The results of our testing procedures indicates an amount due to the UNP TIF trust account of \$385,432. This is comprised of a combination of transactions more fully described below in the Detailed Results section of this report. Exhibit 1 provides a summary recap of this as well.
2. In addition, we noted there was a fund allocation variance of \$372,685 between the Project Fund and the Economic Development Fund, whereby the Project Fund was under-allocated by the amount, and the Economic Development Fund was over-allocated.

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3. We reviewed and tested the cash account reconciliations for the Fund 57 account maintained in the City's Pooled Cash account and the Restricted Cash at Trustee accounts. A summary of the UNP TIF cash balances as of June 30, 2019 is shown at Exhibit 2.
4. We noted that the City has allocated a 3-5% administrative expenses fee to the UNP TIF Trust Fund since fiscal year 2014, although there is no authority in the governing documents to allow for this overhead adjustment. The total administrative fee allocated to the UNP TIF from FY 2014 through June 30, 2019 is \$1,693,485.

Exhibit 3 of this report provides a recap of the potential amounts due to (from) the UNP-Restricted Trust cash accounts.

It should be noted that we encountered several scope limitations that impacted our ability to completely perform all of the requested procedures by the interested parties. The most significant of these was the lack of availability of certain information because they were past document retention policies of the respective organizations. These are also more fully described below.

Procedures Performed and Detailed Results

In connection with scope of services under this engagement, we evaluated the City's compliance with the TIF Project Plan and the established Operating Procedures and Practices for the periods from 2006 through June 2019. In order to verify the amount of funds available for authorized Project Costs the following specific data sets, among other things, were reviewed:

1. Real property and personal property *ad valorem* tax revenue received by Cleveland County and allocated to the TIF Trust;
2. Sales tax revenue received by the City and allocated to the TIF Trust including a comparison against sales tax revenue received by the City from the State with respect to individual businesses located within the TIF increment district;
3. Calculation of Public Safety dedicated sales tax beginning in October 2017 and Norman Forward dedicated sales tax beginning in October 2017, including review and validation of underlying source data;
4. Calculation of the "catch up" public safety dedicated sales tax adjustment and Norman Forward dedicated sales tax adjustment made in October 2017, including review and validation of underlying source data;
5. Calculation of annualized sales tax growth rate adjustments, including review and validation of underlying source data;
6. Calculation of material transfer adjustments and related material "backfill" adjustments including review and validation of underlying source data;
7. Confirming deposits made into various bank accounts maintained by the TIF Trust including comparison against amounts referenced above;
8. Confirming transfers made among various bank accounts maintained by the TIF Trust;
9. Calculation of overhead and other fees and administrative expenses retained by the City or paid by the TIF Trust to third parties, including payments made to the City;

10. Reviewing material Project Cost expenditures and any other material expenditures made by the TIF Trust. This review did not include testing project expenditures made by the City but that had not yet been drawn down by the Trust, as that was not part of the requested scope.
11. Reviewing bank account reconciliations as of June 30, 2019, and agreeing bank balances to bank statements and testing reconciling items.

Detailed Procedures and Results

Property Tax Revenues:

1. We validated the base assessed valuation established by the Cleveland County Assessor in May 2006.
2. Visited the Cleveland County assessor's office and obtained reports for valuations for each fiscal year since inception for real estate tax and personal property tax.
3. Validated millage for each fiscal year obtained from the Cleveland County assessor.
4. Re-calculated total ad valorem generated by UNP TIF times 50% for estimated property tax.
5. Traced yearly deposits made by the City to UNP TIF Bank of Oklahoma (BOK) Trust for the periods from fiscal year 2009 through fiscal year 2019. (The BOK Trust accounts were opened in fiscal year 2009 when the 2009 Revenue Bonds were issued.) For fiscal years 2007 and 2008, we noted that the deposits were "debited" to the City's General Ledger pooled cash account in Fund 57, with a related "credit" to property tax revenues. The City did not have bank statements available for those periods. RSM did not request imaged or archived bank statements from the financial institution, as we were able to determine through subsequent transfers and bank reconciliations that the property tax payments were included in the appropriate accounts.

Finding: We noted that fiscal year 2017 transfer from the City to TIF BOK Trust bank statement was \$359,030 less than the actual property taxes received by the City for that fiscal year. We also noted several small property tax payments received applicable to several fiscal years and totaling \$3,880 that were not transferred to the TIF BOK Trust accounts.

Conclusion: The above differences are included on the Summary at Exhibit 1.

6. We noted that the estimated property tax revenues generally varied from the actual property tax revenues received by 1% to 2% per year. No significant variances were noted, except as described below:

Finding: For the 2016 assessed valuation, the difference between the estimated property taxes to be received, the property taxes actually received and, based upon the schedule prepared by the City was \$121,882 (9.65%). Upon inquiry and additional testing, it was determined that property taxes listed on the schedule were understated by \$101,934.

Conclusion: The difference of \$101,934 has been included on the Summary at Exhibit 1.

Sales Tax Revenues:

The City maintains an Excel workbook called "UNP Tax Collections" to compile and record the amount of sales taxes collected by individual businesses located in the UNP-TIF. The information on this worksheet pertaining to individual businesses is confidential, and is restricted to certain personnel at the City that have been authorized to access the information from the Oklahoma Tax Commission (OTC). In connection with this examination, the City provided RSM with a copy of the workbook, as well as controlled access to the OTC Website.

The UNP Tax Collections worksheet contains monthly sales tax data dating back to October 2006, the date that the first sales tax collections were reported in the UNP-TIF. For businesses that relocated into the UNP-TIF from another part of the City, the worksheet also provides the sales taxes reported by those businesses on a monthly basis in the year preceding their re-location into the UNP-TIF. The difference between the sales tax generated by the business while in the UNP-TIF and the amount generated in the year prior to their moving into the TIF is reported as a "Transfer Adjustment". If a new business opened in a location previously vacated by a business that moved in the UNP-TIF, the sales tax generated by that new business are reported as a "Backfill Adjustment". The "Transfer Adjustments" and "Backfill Adjustments" are maintained on the same Excel worksheet, but are segregated in such a manner so as to provide a clear distinction between "regular" sales tax collections and the transfer adjustments and backfill adjustments.

An OTC official represented to the City and to RSM the following matters related to the availability of information on tax collections from individual businesses:

- (1) Information related to individual businesses was only accessible by the City on the OTC website for the periods from July 2014 to the present;
- (2) Information related to individual business from the periods July 2010 through June 2014 was generally available to the OTC personnel, and could be provided to the City upon request. However, as discussed below, monthly information may not have been for all individual businesses, as the information might not have been archived, or there might be other variations as well, which are also described below;
- (3) Information related to individual businesses prior to July 2010 was not available

The following summarizes the procedures performed:

7. For sales tax received by the City for the periods from July 1, 2014 through June 30, 2019, our procedures and results were as follows:

Procedure: We selected two months of five top businesses plus two months of five random-selected businesses, plus additional selections on a judgmental basis, and validated the sales tax included on the UNP Tax Collections worksheet to Oklahoma Tax Commission (OTC) website or to emails that the City received directly from businesses.

Results: Except as discussed below, no variances between the amounts reported on the UNP Tax Collections worksheet and the amounts vouched to the OTC website or e-mails received from individual businesses were noted.

Finding: For one business selected, City management could not provide documentation of the sales tax received for that business in January 2015. This particular business had multiple locations in Norman under the same sales tax permit. Each month, the business e-mailed the City's budget analyst the sales taxes applicable to the location in the UNP-TIF. The City could not locate the e-mail received from that business for the January 2015 sales taxes. RSM performed the following additional procedures:

- Reviewed the e-mail received from that business applicable to the December 2014 (one month prior) sales taxes and noted that the amount entered on the worksheet agreed to the amount reported by the business in the e-mail.
- Viewed the total sales tax collections on the OTC website for this business in January 2015 under this sales tax permit and noted that the total amounts for all locations for the month were greater than what was reported on the worksheet for the UNP-TIF location.
- Compared the amount reported on the UNP Sales Tax Collections worksheet for the January 2015 month to the three months prior and three months subsequent and did not identify any unusual variances.

Conclusion: Based upon the additional procedures performed, RSM determined that the amount reported on the UNP Sales Tax Collection worksheet for the January 2015 sales tax for the business in question was reasonable, and no adjustment was proposed.

8. For sales tax received by the City for the periods from July 1, 2010 through June 30, 2014, our procedures and results were as follows:

Procedures: We selected one month in each fiscal year for three high value businesses, one business randomly selected, one business that is a "backfill" business (i.e. moved into the old location of a business that re-located from outside the UNP-TIF into the UNP-TIF), and the baseline sales tax revenues for a business, which consist of the sales tax revenues in the year preceding the year that a business re-located into the UNP-TIF District. The businesses selected for which we tested the "backfill" revenues did not necessarily relate to the selected "baseline" sample. We requested that the OTC representative confirm the sales tax for the selected month for each business selected.

Results: We noted the following variances between the amounts reported on the UNP Tax Collections worksheet and the amount confirmed by the OTC representative were noted.

Finding No. 1: For two of the businesses selected, we identified net differences resulting in a net under-reporting of sales taxes of \$12,846. These businesses were regular sales tax generators, not associated with a "Transfer Adjustment" or "Backfill".

Additional Procedures: For all of the significant businesses selected in this portion of the test, including the two businesses with the identified variances, RSM reviewed the monthly sales taxes reported on the UNP Tax Collections Worksheet for significant or unusual variances, using professional judgment. This procedure included comparing monthly reported sales tax to amounts reported in comparable months in the preceding year. In addition, RSM inquired of the City regarding possible reasons for the errors and the City did not know of a specific identifiable reason, other than data entry error.

Conclusion: The individual months in which errors were reported for the two businesses were clearly "outliers" in relation to the expected sales tax reported for those businesses in other months during this four-year period. In addition, RSM did not notice any significant or unusual fluctuations in monthly sales tax amounts for the other significant businesses included in this portion of the test. We did not vouch all of the monthly amounts to supporting information from the OTC, but nothing came to our attention to indicate that there were any significant or unusual variations in the items tested. The reported error of \$12,846 is included in the Summary at Exhibit 1.

Finding No. 2: For one business selected, the OTC representative was unable to confirm the sales tax collections for the month selected (September 2010). Upon further inquiry with the OTC representative, RSM and the City were informed that no records were available for this particular business any earlier than December 2011. The OTC representative stated that not all records and information for individual businesses in earlier years were archived. The OTC representative stated for this particular business, no records earlier than December 2011 were available.

RSM performed the following additional procedures: We compared the September 2010 sales tax collections to the three months prior and three months subsequent and noted no unusual fluctuations.

Conclusion: Based upon the additional procedure performed, RSM concluded that the amount reported on the UNP Tax Collections worksheet for the September 2010 sales tax for the business in question was reasonable, and no adjustment was proposed.

9. For years prior to fiscal year 2011 (fiscal year 2007 through fiscal year 2010) in which information was not available from the OTC and therefore independent verification was not able to be performed, RSM tested reasonableness by comparing the sales taxes for selected individual businesses on a monthly basis to the monthly average for the fiscal year as well as common months across fiscal years, and did not note any unusual "outliers".
10. RSM traced and agreed gross sales tax for all the months in all of the fiscal years from "UNP Tax Collections" worksheet to the "TIF Revenue revised FYE 18" worksheet.
 - a. We noted several variances in the recalculations, and the net result was an underfunding to the UNP-TIF of \$289.
11. RSM performed completeness test for backfill businesses by physical visit to old locations outside TIF district and/or telephone calls to the businesses or leasing agents.

Finding: We noted one business that was not included on the UNP Sales Tax Collection worksheet as a backfill adjustment. This business opened in October 2018 in the former location of a business that had previously moved into the UNP-TIF. The amount of sales tax revenues that were excluded from the UNP Sales Tax Collection worksheet from October 2018 to June 2019 is unknown.

12. We recalculated formulas for 100% of the monthly transfer adjustments and backfills included in the "UNP Tax Collections" spreadsheet, and noted no errors in the formulas or the computations of the transfer adjustments and backfills.

13. We traced and agreed total transfer adjustments net of backfills from "UNP Tax Collections" worksheet to "TIF Revenue revised FYE 18" worksheet.

Finding: In October 2010, there was a \$72,846 overage to the UNP-TIF noted in the calculation.

Conclusion: This difference is included on the Summary at Exhibit 1.

14. Validated percentages used for Public Safety Sales Taxes and Norman Forward Sales Tax to ordinances.
15. Traced yearly general purpose sales tax to the respective CAFR for each year, and (1) recalculated average annualized growth rate for those under 4.5%, and (2) validated correct prorated percentages was used for the related monthly apportionment to the UNP-TIF in the "TIF Revenue revised FYE 18" worksheet.
16. We recalculated the apportionment to the City and the UNP-TIF based on 40% and 60%, or the prorated calculation as appropriate, and the allocation of the UNP-TIF apportionment to TIF to projects and economic development based on 50% and 10%.

Finding: We noted a net total difference of \$19,701 overage to the TIF, primarily due to the first month of proration July 2010, City used 60% instead of prorated percentage.

Conclusion: This difference is included on the Summary at Exhibit 1.

17. We recalculated the "catch up" entries made for the Public Safety Sales Tax adjustment and the Norman Forward Sales Tax adjustment, including review and validation of underlying source data, and agreed amounts to the Arledge & Associates report, which had already identified a variance that we are not including in our results summary of \$5.78 million.

The total calculation agreed to fund 057 GL within an immaterial amount (the difference was result of rounding in the number of decimal places used).

Finding: The allocations to Projects and Economic Development were recalculated as \$4,648,193 for the Project Fund and \$929,639 for the Economic Development Fund instead of \$4,275,508 and \$1,301,242 as recorded. This resulted in the Project Fund being under-allocated by \$372,685, and the Economic Development being over-allocated by the same amount.

Conclusion: This difference has been included on the Summary of Identified Differences at Exhibit 1.

18. We selected a sample (same months as selected above) and validated to OTC website total amount on deposit letters, and traced allocations to UNP-TIF fund to the corresponding TIF BOK project and economic development bank statements as well as to the final calculation spreadsheet.

Overall Scope Limitation: As noted previously, no information was available from the OTC for Fiscal Year 2010 and prior years.

Administrative Fees and Project Expenditures:

19. For the administrative fees allocation, RSM performed the following procedures:

- (a) agreed to the City budget resolutions approved by the City Council;
 - (b) selected a sample from City of Norman accounting records (five months for every fiscal year calculated starting July 2013 (fiscal year 2014), two top months and three random) and traced revenue to Fund 57 General Ledger;
 - (c) validated percentage used (3% for fiscal year 2014 and 5% for fiscal year 2015 and thereafter) based on the City Council resolution;
 - (d) recalculated expense;
 - (e) and traced recalculated expense to the Fund 57 General Ledger.
- a. We noted immaterial differences between the amounts recalculated using the budget books, compared to the amounts recalculated using the City's Internal Revenue and Expenditure books, referred to by City management as "the yellow books" and "the green books". The "Yellow Books" and the "Green Books" reflect the actual revenues and expenditures for the periods, and can be reconciled back to the City's Comprehensive Annual Financial Report. Thus, the administrative fee amounts indicated in this report may differ from what might be computed using budgeted amounts as the base.

Finding: The governing documents do not give the City the specific authorization to charge an overhead allocation / administrative fee.

20. For project cost expenditures, we performed the following procedures:

- a. We selected a sample from the project cost detail and vouched to invoices/payments/other related supporting evidence. The City used batch journal entries to record the project cost expenditures in its General Ledger. As a result, one general ledger entry frequently consisted of numerous vendor invoices.

Total Project payments in the City's general ledger from inception through June 2019 consisted of 58 individual general ledger entries totaling \$28,217,555. RSM selected a total of 12 individual general ledger entries from throughout the period of the TIF, and vouched individual transactions totaling \$11,571,104 that were included in those general ledger entries.

Finding: Supporting documentation for 1 item in fiscal year 2008 was not available. This was identified as Project UT0002 – I-35 Frontage/24 NW Imp.

Conclusion: Even though no supporting documentation was available for this item with a total project expense of \$678,141, we noted that the project costs were included in a fund which would have been included in the City's CAFR for the year, and thus subject to the City's annual financial statement audit.

The total adjustment needed to the UNP TIF as a result of administrative fee and project expenditures testing: None, unless the administrative fees are determined to be ineligible costs. The total administrative fee allocated to the TIF is \$1,693,485 for fiscal year 2014 – fiscal year 2019.

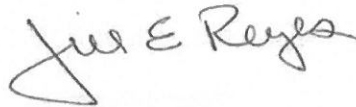
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This report was been prepared and discussed with the City in detail during multiple conversations from July 2019 – September 2019. The initial results from July 2019 were provided to the interested parties by the City, and on August 15, 2019, provided clarifying questions to the City for response. As a result, and by request of the City, RSM tested additional samples under the scope of work noted above, and the City and RSM have jointly prepared the response in the attached appendix to clarify and update the initial results. Detailed transactions tested and other specific information is available upon request through the City of Norman, Oklahoma.

RSM's Consulting Services Business Risk Compliance group was engaged to perform the special audit of the TIF Trust and the City UNP TIF Account, which included a review of compliance with the Trust's Operating Policies and Procedures, as requested. The AICPA's Statement on Standards for Consulting Services" are included in RSM's methodology for these services.

A handwritten signature in black ink, appearing to read "Mike Gibson", with a long horizontal line extending to the right.

Mike Gibson, Partner

A handwritten signature in black ink, appearing to read "Jill E. Reyes", with a stylized, cursive script.

Jill Reyes, Director

City of Norman

UNP TIF - Summary of Identified Differences
Inception to June 30, 2019

Exhibit 1

Number	Account	Description	Over/(Under)
1	Property tax	Fiscal Year 2017 deposit from City to TIF BOK short funded	\$ (359,030)
		Payments received not deposited - Various	(3,880)
		Payment received not deposited - November 2016	(101,934)
			<u>(464,844)</u>
2	Sales tax	Identified errors in detailed testing - fiscal year 2011 - fiscal year	(12,846)
		Transfers	72,846
		Other differences	(289)
			<u>59,711</u>
3	Sales tax	Apportionment to UNP TIF	19,701
		Total differences	<u><u>\$ (385,432)</u></u>

In addition to the above, we also noted that when the City made the "Catch Up" entry for the Public Safety Sales Tax and the Norman Forward Sales Tax, the amounts allocated to the Project Fund were under-allocated by \$372,685 and the amount allocated to the Economic Development Fund were over-allocated by the same amount.

An additional identified difference for which the amount is not known at this time is the exclusion of the sales taxes generated by one business that re-located into the former location of a business that had moved into the UNP-TIF.

City of Norman

UNP TIF - Summary of UNP TIF Cash Balances
As of June 30, 2019

Exhibit 2

<hr/>	
Pooled cash - allocable portion of UNP-TIF	
UNP-TIF operations	\$ (1,822,869)
Cash restricted for Business Improvement District	501,194
Total pooled cash	<hr/> (1,321,675)
Restricted cash at Trustee	15,308,297
Total cash at June 30, 2019	<hr/> \$ 13,986,622 <hr/>

City of Norman

**UNP TIF - Summary of Potential Due To / Due From Trustee Restricted
Cash Account as of June 30, 2019**

Exhibit 3

Plus: Property Tax underfunding	\$	464,844
Less: Sales tax overfunding		(59,711)
Less: Sales tax apportionment adjustment		(19,701)
Less: Negative pooled cash in Fund 57		(1,822,869)
Plus: Unapproved Administrative Cost Allocation	a	<u>1,693,485</u>
Potential due to (from) UNP-Restricted Trust accounts	b	<u><u>\$ 256,048</u></u>

Notes to Exhibit 3:

- a. The Administrative Cost allocation which began in fiscal year 2014 was not an approved cost of the Operating Policies and Procedures. We note that a 5% overhead allocation rate is not an unreasonable rate for recovery of overhead and other costs incurred in connection with oversight of a program. However, we also noted that the 5% applied in this instance was a percentage of revenues, and not based upon an estimate of the time and effort involved by personnel and other direct costs incurred in the administration of the program.
- b. This schedule does not include any sales tax revenues that would be due to the UNP TIF Restricted Trust Cash accounts related to a business that in approximately October 2018 re-located into the former location of a business that moved into the UNP-TIF Trust.