

HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST

FINANCIAL AND COMPLIANCE AUDIT

JUNE 30, 2015 AND 2014

HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST
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JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

April 4, 2016

To the Trustees
Haskell County Public Facilities Authority

We have audited the accompanying financial statements of the Haskell County Public Facilities Authority (the Authority), a component unit of Haskell County which comprise the statements of net position as of June 30, 2015 and 2014 and the related statements of revenues, expenses and changes in net position, and statements of cash flows for the years then ended, and the related notes to the financial statements which collectively comprise the Haskell County Public Facilities Authority's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the



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To the Trustees
Haskell County Public Facilities Authority
April 4, 2016

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Haskell County Public Facilities Authority as of June 30, 2015 and 2014, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the Management's Discussion and Analysis that is required supplemental information by the Government Accounting Standards. Although not a part of the basic financial statements it has been determined the information is 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 the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2016 on our consideration of Haskell County Public Facilities Authority's internal control over financial reporting and on our test of compliance with 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 controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Haskell County Public Facilities Authority's internal control over financial reporting and compliance.

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HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ 9,256	\$ 110,353
Investments	674,381	537,725
Accrued interest receivable	9	9
Sales and use tax receivable	39,010	36,321
Due from Haskell County General Fund	185,708	-
Capital assets, net of depreciation	<u>6,488,024</u>	<u>6,688,143</u>
Total Assets	<u>7,396,388</u>	<u>7,372,551</u>
Deferred Outflow of Resources		
Deferred charge on refunding	<u>565,576</u>	<u>601,297</u>
Liabilities		
Accounts payable	9,895	77,168
Accrued interest payable	54,106	81,567
Note payable	450,000	-
Bonds payable, net of discount	<u>6,730,340</u>	<u>7,129,111</u>
Total Liabilities	<u>7,244,341</u>	<u>7,287,846</u>
Net Position Restricted for Bond Programs	<u>\$ 717,623</u>	<u>\$ 686,002</u>

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

HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Expenses		
Accounting expense	\$ 148	\$ 2,000
Depreciation	200,119	200,655
Repairs and maintenance	1,968	-
Personnel Costs	165,222	-
Operating Supplies	18,569	-
Trustee fees	5,375	14,606
Utilities	<u>20,483</u>	<u>-</u>
Operating Loss	<u>(411,884)</u>	<u>(217,261)</u>
Nonoperating revenues and expenses		
Sales and use tax revenue	655,060	433,202
Interest income	202	22,309
Gain on refunding of bonds	-	88,977
Interest expense	(179,772)	(330,825)
Bond issuance fees	(282)	(173,767)
Debt issuance fees	(25,474)	-
Discount Accretion	<u>(6,229)</u>	<u>-</u>
Total nonoperating revenues	<u>443,505</u>	<u>39,896</u>
Change in Net Position	31,621	(177,365)
Net Position, beginning of year	<u>686,002</u>	<u>863,367</u>
Net Position, end of year	<u>\$ 717,623</u>	<u>\$ 686,002</u>

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

HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Cash paid to suppliers	\$ (279,038)	\$ (53,562)
Net Cash Provided (Used) by Operating Activities	<u>(279,038)</u>	<u>(53,562)</u>
Cash Flows From Investing Activities:		
Proceeds from sales of securities	-	968,113
Purchase of securities	(136,656)	(537,725)
Interest received	<u>202</u>	<u>33,734</u>
Net Cash Provided (Used) by Investing Activities	<u>(136,454)</u>	<u>464,122</u>
Cash Flows From Non-Capital Financing Activities:		
Proceeds from issuance of operating debt	450,000	-
Payment of debt issuance fees	(25,474)	-
Interest paid	<u>(5,939)</u>	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>418,587</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:		
Proceeds from refunding bonds	-	7,019,859
Payment of bond issuance fees	(282)	(173,767)
Payment to refunded bond escrow agent	-	(7,371,297)
Principal payments on Long Term debt	(405,000)	(135,000)
Interest paid	(165,573)	(243,367)
Sales tax received	<u>466,663</u>	<u>433,606</u>
Net Cash Provided (Used) by Financing Activities	<u>(104,192)</u>	<u>(469,966)</u>
Net increase (decrease) in cash	(101,097)	47,718
Cash at beginning of year	<u>110,353</u>	<u>62,635</u>
Cash at end of year	<u>\$ 9,256</u>	<u>\$ 110,353</u>

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

A PUBLIC TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of Change in Net Position to Net Cash Provided (Used) by Operation Activities:		
Change in Net Position	\$ 31,621	\$ (177,365)
Adjustments to reconcile change in net position to cash provided (used) by operating activities:		
Depreciation	200,119	200,655
(Decrease) increase in accounts payable	(67,273)	70,168
Non-operating (receipts) expenses	<u>(443,505)</u>	<u>(39,896)</u>
 Net Cash Provided (Used) by Operating Activities	 <u>\$ (279,038)</u>	 <u>\$ 53,562</u>
 Cash Paid During the Year for:		
Interest	 <u>\$ 171,512</u>	 <u>\$ 243,367</u>

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

HASKELL COUNTY PUBLIC FACILITIES AUTHORITY
A PUBLIC TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Summary of Significant Accounting Policies

Organization

The Haskell County Public Facilities Authority (the Authority), a component unit of Haskell County, was created as a public trust under applicable Oklahoma statutes on November 14, 2005, with Haskell County, Oklahoma named as the beneficiary thereof. The Trustees of the Authority, the County Commissioners of Haskell County, is the same governing body of Haskell County. The purpose of the Authority is primarily to finance the acquisition, construction, furnishing and equipping of the Haskell County Jail and Criminal Justice Facility, of any sort or description, including, but not limited to, any real or personal property related thereto. The provisions of the Trust Indenture basically provide that the Authority is authorized to acquire, lease, or otherwise hold and dispose of real and personal property for its Trust purposes; provided that, no purchaser at any sale or lessee under a lease made by the Trustees shall be bound to inquire into the expediency, propriety, validity or necessity of such sale or lease or to see or be liable for application of the purchase or rental monies arising therefrom. To issue Bonds, Notes or other evidences of indebtedness for any of the purposes of the Trust authorized hereby including but not limited to: the acquisition, construction, reconstruction, equipping or otherwise financing facilities which may be secured with Mortgages, security interests or other collateral satisfactory to the Trustees. Debt issued by the Authority requires two-thirds approval of the Trustees.

On April 1, 2006, the Authority determined to issue, sell and deliver its Haskell County Public Facilities Authority Sales Tax Revenue Bonds, Series 2006, in the aggregate principal amount of \$5,500,000, pursuant to the Bond Indenture. These bonds were issued for the purposes of providing funds for the acquisition, construction and equipping of a new Haskell County Jail and Criminal Justice Facility. The ongoing operations and transactions of the program are accounted for by BancFirst, Oklahoma City, Oklahoma.

On November 1, 2006, the Authority issued Sales Tax Revenue Bonds Series 2006B, in the aggregate principal amount of \$2,000,000 to provide supplemental funds for the design, construction, furnishing and equipping of an expanded new Haskell County Jail and Criminal Justice Facility.

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

On June 1, 2014, the Authority determined to issue, sell and deliver its Haskell County Public Facilities Authority Sales Tax Revenue Refunding Bonds, Series 2014, in the aggregate principal amount of \$7,235,000, pursuant to the Bond Indenture. These bonds were issued for the purposes of providing funds to advance refund the \$5,500,000 Haskell County Public Facilities Authority Public Facilities Lease Revenue Bonds (Haskell County Jail and Criminal Justice Facility Project) Series 2006 and the \$2,000,000 Haskell County Public Facilities Authority Public Facilities Lease Revenue Bonds (Haskell County Jail and Courthouse Expansion Project) Series 2006B, and pay the costs of issuance.

The Authority is financed by a 1/2% sales tax, which was approved in a special election held November 8, 2005. On February 11, 2014, the voters of Haskell County approved an increase in the sales tax amount of 1/4% for a total of 3/4% effective July 1, 2014.

Fund Accounting - Haskell County Public Facilities Authority Sales Tax Revenue Refunding Bonds, Series 2014

A description of the funds and accounts created by the Bond Indenture on June 1, 2014 which are currently maintained by the Authority and the Trustee Bank are as follows:

Revenue Fund

All sales tax revenues shall be deposited into a Revenue Fund and then the Trustee is directed to apply the monies as follows:

First: An amount equal to 1/6 of the interest payable on the next ensuing interest date and 1/12 of the principal payable on the next ensuing principal payment date to the Bond Fund.

Second: An amount to the Trustee to pay 1/12 of the amount of the annual trustee fees.

Third: An amount to the Authority to equal its annual prorata audit costs related to the Project and its Annual Administrative Fee equal to 1/10 of one percent of the principal amount of the outstanding Bonds.

Bond Fund

Two sub-accounts shall be established in the Bond Fund, a Principal Account and an Interest Account. The Trustee will make payments in

the following order of priority: (i) into the Interest Account, an amount equal to initially, 1/6 of the interest due on December 1, 2014 and thereafter, an amount equal to 1/6 of the interest due on such December 1 and June 1 next succeeding, less the credit balance, if any, of the Interest Account on such date of payment, and (ii) into the Principal Account, an amount equal to 1/12 of the principal maturing on such December 1 next succeeding, less the credit balance, if any, of the Bonds so maturing or being redeemed on such date.

Payments from the Principal and Interest Accounts of the Bond Fund

Prior to each interest payment date, the Trustee will withdraw from the Interest Account of the Bond Fund an amount equal to the interest due on the Bonds on the interest payment date, and apply the same to the payment of interest due.

Prior to each date on which any principal amount of the Bonds is to mature or are to be redeemed, the Trustee will withdraw from the Principal Account of the Bond Fund an amount equal to the amount of the Bonds maturing or being redeemed and apply the same to the payment of the maturing principal or redemption price of Bonds being redeemed, as applicable.

Bond Proceeds Fund

The Bond Proceeds Fund shall receive the proceeds of the Bonds. The costs and expenses of and incidental to the issuance and sale of the Bonds shall be paid to the persons entitled.

Bond Fund Reserve

The Bond Fund Reserve shall receive a deposit from Bond proceeds in an amount equaling the Bond Fund Reserve Requirement. Monies deposited in the Bond Reserve shall be used and withdrawn by the Trustee for the purpose of paying the last principal of the Bonds.

Rebate Fund

This fund is created by the Trustee for the benefit of the United States and shall not be subject to the lien of the Bondholders.

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

Cash and Investments

Investments are carried at fair value. Investment income, gains and losses are reflected in the statement of revenues, expenses and changes in retained earnings.

The Authority includes investment income, realized gains and losses and unrealized gains and losses in other income and expenses

All amounts held under the Bond Indenture by the Trustee Bank were invested and were continuously and fully secured for the benefit of the Authority and the owners of the Bonds, primarily by the investment thereof in investment securities meeting the strict criteria of the Bond Indenture (See Note 2). These investments were held in the Authority's name. As of June 30, 2015 and 2014, the Trustee Bank held cash of \$1 and \$70,373, respectively.

The Authority also has cash held in a local bank. The sales tax revenue received from the Oklahoma Tax Commission is deposited into the Haskell General Fund, and the Treasurer is required to allocate 3/4% of the sales tax to the Authority to be used for payment of debt obligations.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as demand deposits.

Accounts Receivable

No allowance for uncollectible accounts has been established as the Authority has determined that all amounts are collectible.

Fixed Assets

Property and equipment are capitalized at cost and depreciated using the straight-line method over their estimated useful lives.

Basis of Accounting

These financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred. These financial statements apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30,

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

Subsequent events have been evaluated through the issuance date of this report and no significant events were noted.

Note 2 - Investments

Authorized Investments consist of:

Direct obligations of the United States of America, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

Direct obligations guaranteed by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America.

Federal Housing Administration debentures.

Direct obligations in agencies which obligations are not fully guaranteed by the full faith and credit of the United States such as the Federal Home Loan Bank System, Farm Credit System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

Deposits the aggregate amounts of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$15 million.

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.
Money market funds rated "Aam" or "Aam-G" by S&P, or better, and if rated by Moody's, rated "Aa2" or better.

At June 30, 2015 and 2014, investments recorded at cost which approximate market value consisted of Federated Government Obligations Tax Managed Fund #637. These investments were held in the following accounts:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Federated Government Obligations Tax Managed Fund # 637:		
Reserve Account 2014 Series	\$ 537,781	\$ 537,725
Bond Revenue Account 2014 Series	75,593	-
Project Fund 2015 Jr. Lien Note	54,722	-
Revenue Fund 2015 Jr. Lien Note	6,285	-
	<u>\$ 674,381</u>	<u>\$ 537,725</u>

Investments purchased and sold during the periods were all of the same type as those held at period end.

Note 3 - Fixed Assets

Changes in fixed assets for the years ending June 30, 2015 and 2014 are as follows:

	Cost			
	Balance <u>June 30, 2014</u>	<u>Additions</u>	<u>Removals</u>	
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Building	7,819,719	-	-	7,819,719
Furniture and Fixtures	46,265	-	-	46,265
Vehicles	<u>16,080</u>	<u>-</u>	<u>-</u>	<u>16,080</u>
Total	<u>\$ 7,922,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,922,064</u>

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

	Accumulated Depreciation			Balance June 30, 2015
	Balance June 30, 2014	Additions	Removals	
Total	<u>\$ 1,233,921</u>	<u>\$ 200,119</u>	<u>\$ -</u>	<u>\$ 1,434,040</u>

	Cost			Balance June 30, 2014
	Balance June 30, 2013	Additions	Removals	
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Building	7,819,719	-	-	7,819,719
Furniture and Fixtures	46,265	-	-	46,265
Vehicles	16,080	-	-	16,080
Total	<u>\$ 7,922,064</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,922,064</u>

	Accumulated Depreciation			Balance June 30, 2014
	Balance June 30, 2013	Additions	Removals	
Total	<u>\$ 1,033,266</u>	<u>\$ 200,655</u>	<u>\$ -</u>	<u>\$ 1,233,921</u>

Note 4 - Long Term Debt

Advanced Refunding Bonds

The Authority issued \$7,235,000 of Haskell County Public Facilities Authority Sales Tax Revenue Refunding Bonds Series 2014 (Refunding Bonds) on June 26, 2014 with net proceeds of \$7,085,561 (after issuance costs of \$43,550, less original issue discount of \$105,889) to provide resources along with other existing funds to purchase U.S. Treasury State and Local Government Series securities. These securities were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$6,770,000 of Haskell County Public Facilities Authority Sales Tax Revenue Bonds, Series 2006 and 2006B Bonds (Defeased Bonds) originally issued in the aggregate principal amount of \$7,500,000. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. This advance refunding was undertaken to reduce total debt service payments over the remaining life of the refunded debt by \$670,795 and resulted in an economic gain of \$1,189,275. At June 30, 2015, \$6,625,000 of Defeased Bonds are outstanding.

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

The 2014 Refunding Bonds have maturity dates and bear interest rates as shown in the following schedule:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
4/1/2016	360,000	2.00%
4/1/2017	325,000	2.00%
4/1/2018	335,000	2.00%
4/1/2019	340,000	2.00%
4/1/2020	345,000	2.25%
2021-2025	1,880,000	2.50% - 3.375%
2026-2030	2,210,000	3.50% - 4.00%
2031	1,035,000	4.00%

Changes in Bonds for the period ended June 30, 2015 are as follows:

<u>Bonds Payable</u>			
<u>Balance June 30, 2014</u>	<u>Bonds Issued</u>	<u>Bonds Paid</u>	<u>Balance June 30, 2015</u>
<u>\$ 7,235,000</u>	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 6,830,000</u>

<u>Bond Discount</u>			
<u>Balance June 30, 2014</u>	<u>Discount Taken</u>	<u>Current Accretion</u>	<u>Balance June 30, 2015</u>
<u>\$ 105,889</u>	<u>\$ -</u>	<u>\$ 6,229</u>	<u>\$ 99,660</u>

Changes in the Bonds for the year ending June 30, 2014 are as follows:

<u>Bonds Payable</u>			
<u>Balance June 30, 2013</u>	<u>Bonds Issued</u>	<u>Bonds Paid</u>	<u>Balance June 30, 2014</u>
<u>\$ 6,905,000</u>	<u>\$ 7,235,000</u>	<u>\$ 6,905,000</u>	<u>\$ 7,235,000</u>

<u>Bond Premium</u>			
<u>Balance June 30, 2013</u>	<u>Premium Taken</u>	<u>Current Amortization</u>	<u>Balance June 30, 2014</u>
<u>\$ 125,589</u>	<u>\$ -</u>	<u>\$ 125,589</u>	<u>\$ -</u>

<u>Bond Discount</u>			
<u>Balance June 30, 2013</u>	<u>Discount Taken</u>	<u>Current Accretion</u>	<u>Balance June 30, 2014</u>
<u>\$ 16,337</u>	<u>\$ 105,889</u>	<u>\$ 16,337</u>	<u>\$ 105,889</u>

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

The reacquisition price of the Defeased Bonds exceeded the net carrying amount of the old debt by \$601,297 and created a deferred charge on refunding. This amount was netted against the new debt and will be recognized as a component of interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

At June 30, 2015, a deferred charge on refunding of \$565,576 remained. Future expected amortization of the deferred loss is as follows:

2016	\$ 35,721
2017	35,721
2018	35,721
2019	35,721
2020	35,721
2021-2025	178,603
2026-2030	178,603
2031	29,765
	<u>\$ 565,576</u>

Jr. Lien Sales Tax Revenue Note

In March 2015, the Authority obtained a loan (the Haskell County Public Facilities Authority Junior Lien Sales Tax Revenue Note Series 2015) in the amount of \$450,000 with the financial institution that serves as the Trustee for the Refunding and Defeased Bonds discussed above. The loan is subordinate to these bonds and was taken for the purpose of providing funds to cover certain operating and maintenance expenses, a one-time cash flow shortfall and to pay the costs of issuance related thereto. This loan is an interest only note bearing interest at a rate of 5.25% payable on each October 1st and April 1st and is subject to an annual renewal each April 1st until 2024.

Note 5 - Related Party Transactions

Beginning in September 2014 (for revenues collected in July 2014), the Authority was due to receive a total of 3/4% of all sales tax revenues collected by Haskell County as per the 2014 Refunding Bond indenture. This adjustment to the allocation calculation was not made and the additional 1/4% generated by the increased sales tax rate that was effective July 1, 2014 was instead allocated to the Haskell County General Fund. The additional 1/4% that should have been received by the Authority through June 30, 2015 totaled \$205,617. As of June 30, 2015, \$185,708 was still owed to the Authority by the Haskell County General Fund.

Haskell County Public Facilities Authority
Notes to Financial Statements
June 30, 2015 and 2014

Note 6 - Sales Tax Revenue

The following is a schedule of sales and use tax revenue collected in each month, and remitted to Haskell County and allocated to the Authority two months later, net of discounts, refunds, and retention.

	June 30, 2015	June 30, 2014
July	\$ 38,210	\$ 34,590
August	38,256	35,951
September	37,884	35,658
October	37,216	36,457
November	35,004	34,779
December	38,494	36,084
January	40,124	38,048
February	47,537	38,128
March	36,947	35,427
April	43,280	34,341
May	37,390	37,418
June	<u>39,010</u>	<u>36,321</u>
	469,352	433,202
Receivable from County General Fund	<u>185,708</u>	<u>-</u>
	<u>\$ 655,060</u>	<u>\$ 433,202</u>



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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

April 4, 2016

To the Trustees
Haskell County Public Facilities Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Haskell County Public Facilities Authority (the Authority) as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Haskell County Public Facilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Haskell County Public Facilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Haskell County Public Facilities Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a *control* does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that



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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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (2015-2)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses to be significant deficiencies. (2015-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Haskell County Public Facilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses. (2015-2)

Haskell County Public Facilities Authority's Response to Findings

Haskell County Public Facilities Authority's response to the findings identified in our audit is described on the following page. Haskell County Public Facilities Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

2015-1 Auditor Involvement with Financial Statements

Finding: A system of internal control over financial reporting does not stop with relying on the internal controls of the trust department of the trustee bank. It includes controls over financial statement preparation, including footnote disclosures. A lack of competencies to prepare disclosures is considered to be a weakness in controls over financial reporting. Although as your external auditor, we assist you in the preparation of financial statements and the disclosures; it does not eliminate the control deficiency. As external auditors, we cannot be considered a part of the Authority's system of internal control. This is a repeat finding from the prior year audit.

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Recommendation: Management should consider obtaining outside support from an individual or group that might provide the expertise to management regarding the preparation of the financial statements and the disclosures in the financial statements.

Responses from Haskell County Public Facilities Authority: We concur with the finding as noted above. However, we feel it would not be cost effective to contract with someone with the required skill set at this time.

2015-2 Calculation of Sales Tax Revenue Allocation

Finding: Per the Haskell County Public Facilities Authority Sales Tax Revenue Refunding Bonds Series 2014 (Refunding Bonds) bond indenture and the Haskell County Public Facilities Authority Junior Lien Sales Tax Revenue Note Series 2015 (Jr. Lien Note), the Sales Tax Agreement that was entered into by Haskell County (the County) and the Haskell County Public Facilities Authority (the Authority) directs that sales tax in the amount pledged of three-fourths of one percent ($3/4\%$) is required to be allocated by the County to the Authority on a monthly basis, deposited into the Depository Bank and then transferred to the Trustee Bank to be used to satisfy debt service obligations on the Refunding Bonds and the Jr. Lien Note. The Jr. Lien Note agreement further clarifies that only after the debt service obligations have been satisfied may the Trustee Bank transfer back any surplus to the Depository Bank to be used by the Authority for operations and expenses. In performing our audit procedures, we noted that the County Treasurer has not adjusted the calculation of the sales tax revenues received and allocated to the Authority as was required and has instead continued to allocate only one-half of one percent ($1/2\%$) to the Authority each month. The additional amount of sales tax revenues approved by the voters of Haskell County effective July 1, 2014 has instead been allocated to the County General Fund. This allocation violates the Sales Tax Agreement that was entered into by the County and the Authority and causes the Authority to be in violation of the bond indenture. This has also resulted in the Authority being unable to pay the required debt service obligations which required the Authority to take on additional debt in the form of the Jr. Lien Note in order to pay the April 2015 principal payment on the 2014 Refunding Bond.

Recommendation: Management should immediately correct the allocation calculations being used to split the sales tax revenues received each month so that the Authority receives the full amount of pledged sales tax revenues as well as remit the amount of additional sales taxes owed to the Authority as of June 30, 2015 per the financial statements. Management should also calculate and remit to the Authority the amounts of additional sales tax revenues owed since August 2015.

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Responses from Haskell County Public Facilities Authority: We concur with the finding as noted above.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

GRAY, BLODGETT & COMPANY, PLLC

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