

**INDEPENDENT ACCOUNTANT'S  
AUDIT REPORT**

**STEPHENS COUNTY EDUCATIONAL  
FACILITIES AUTHORITY  
(A Component Unit of Stephens County)**

**JUNE 30, 2017**

BY



**Stephens County Educational Facilities Authority**  
**Duncan, Oklahoma**  
(A Component Unit of Stephens County)  
Year Ended June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Stephens County Educational Facilities Authority  
Duncan, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Stephens County Educational Facilities Authority (a discretely presented component unit of Stephens County, Oklahoma), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### **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 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 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 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Stephens County Educational Facilities Authority as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

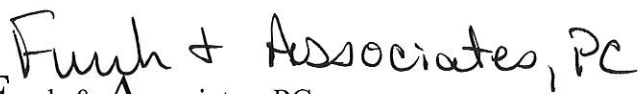
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required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

#### *Emphasis of Matter*

As discussed in Note 1, the financial statements present only the Stephens County Educational Facilities Authority and do not purport to, and do not present fairly the financial position of Stephens County, Oklahoma as of June 30, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

  
Furrh & Associates, PC  
Lawton, Oklahoma  
November 27, 2017

# Stephens County Educational Facilities Authority

Duncan, Oklahoma

(A Component Unit of Stephens County)

Statement of Net Position

June 30, 2017

## ASSETS

### Current Assets

Restricted Cash Accounts	\$	31,345	
Lease Purchase Receivable, Current Portion		<u>3,614,600</u>	
Total Current Assets	\$		3,645,945

### Noncurrent Assets

Lease Purchase Receivable, net of Current Portion		13,761,675	
Improvements to Facilities		<u>26,155,366</u>	
Total Noncurrent Assets			<u>39,917,041</u>

**TOTAL ASSETS** \$ 43,562,986

## LIABILITIES AND NET POSITION

### Current Liabilities

Bonds Payable, Current Portion	\$	3,125,000	
Accrued Interest Payable		<u>125,825</u>	
Total Current Liabilities	\$		3,250,825

### Long Term Liabilities

Bonds Payable, net of Current Portion		<u>12,325,000</u>	
Total Long Term Liabilities			12,325,000

### Deferred Inflows

Deferred Lease Purchase Revenue		<u>31,694,025</u>	
Total Deferred Inflows			31,694,025

### Net Position

Net Investment in Capital Assets		10,579,541	
Restricted		<u>(14,286,405)</u>	
Total Net Position			<u>(3,706,864)</u>

**TOTAL LIABILITIES AND NET POSITION** \$ 43,562,986

Please see accompanying notes to the financial statements.

# Stephens County Educational Facilities Authority

Duncan, Oklahoma

(A Component Unit of Stephens County)

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017

Operating Revenues		
Rental Income	\$ 9,000	
Total Operating Revenues	<u>9,000</u>	\$ 9,000
Operating Expenses		
Administrative Fees	18,605	
Trustee Fees	12,000	
Total Operating Expenses	<u>30,605</u>	<u>30,605</u>
<b>Net Income (Loss) from Operations</b>		<b>(21,605)</b>
Non Operating Revenue (Expense)		
Interest Income	137	
Interest Expense	<u>(520,291)</u>	
<b>Total Non Operating Revenue (Expense)</b>		<b><u>(520,154)</u></b>
<b>Net Income (Loss)</b>		<b>(541,759)</b>
<b>Net Position, Beginning of Year</b>		<b><u>(3,165,105)</u></b>
<b>Net Position, End of Year</b>		<b><u><u>\$ (3,706,864)</u></u></b>

Please see accompanying notes to the financial statements.

# Stephens County Educational Facilities Authority

Duncan, Oklahoma

(A Component Unit of Stephens County)

Statement of Cash Flows

For the Year Ended June 30, 2017

## Cash Flows from Operating Activities

Rental Income	\$	9,000	
Operating Expenses		<u>(30,605)</u>	
Net Cash Provided (Used) by Operating Activities	\$		(21,605)

## Cash Flows from Capital and Related Financing Activities

Proceeds from Lease Purchase		3,594,800	
Payment on Bonds Payable		(3,035,000)	
Interest Expense		<u>(537,282)</u>	
Net Cash Provided (Used) by Capital and Related Financing Activities			22,518

## Cash Flows from Investing Activities

Interest Received from Investments		<u>137</u>	
Net Cash Provided (Used) by Investing Activities			<u>137</u>

**Net Increase (Decrease) in Cash and Cash Equivalents** 1,050

**Cash and Cash Equivalents - June 30, 2016** 30,295

**Cash and Cash Equivalents - June 30, 2017** \$ 31,345

## **Reconciliation of Operating Income (Loss) to Net Cash**

### **Provided by Operating Activities**

Net Operating Income (Loss)	\$	<u>(21,605)</u>
Net Cash Provided (Used) by Operating Activities	\$	<u>(21,605)</u>

**Stephens County Educational Facilities Authority**  
**Duncan, Oklahoma**  
**(A Component Unit of Stephens County)**  
**Notes to the Financial Statements**  
**June 30, 2017**

**Note 1 – Significant Accounting Policies**

The Stephens County Educational Facilities Authority (the Authority) was established as a Trust for the use and benefit of the Beneficiary for the public purposes hereinafter set forth, under the provisions of Title 60, Oklahoma Statutes 2001, Sections 176 to 180.4, inclusive, as amended and supplemented, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The Authority is to assist the beneficiary in making the most efficient use of all their economic resources and powers to lessen the burden on government and to stimulate educational growth and development; promote the educational wellbeing of the Beneficiary by improving available resources, increasing meaningful job opportunities, promoting entrepreneurship and capital investment. The Authority is to conduct all business related to providing the necessary educational facilities and/or services; to plan, establish, develop, construct, finance, enlarge, remodel, acquire, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate any facilities related to any of the foregoing, and if desired, to lease such facilities and to operate the same in connection therewith, and to do, perform, own, acquire, construct or engage in or finance any other enterprise or activity, project or facility to such extent and in such manner as now is or may be considered a proper and lawful function of public trust entities within the State of Oklahoma. The Authority began operation on April 16, 2012. The Authority is exempt from federal and state income taxes.

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP) of the United States of America. The Authority is considered a governmental entity as defined by the Governmental Accounting Standards Board (GASB) and applies all relevant GASB pronouncements.

The Authority's operations are considered proprietary in nature and therefore the Authority has adopted a reporting framework similar to that of proprietary type funds. Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund is rental income from the school districts. Operating expenses include trustee fees and administrative fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. GAAP for proprietary fund types are generally those applicable to similar businesses in the private sector; the measurement focus is on the determination of net income, financial position, and cash flows. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business, including fixed assets and debt are accounted for in a single proprietary fund rather than a series of funds and account groups.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported



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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.

Restricted assets include investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the bond indentures require that funds be held in a bond fund which is comprised of the reserve account, debt service account, and improvement account. Under the term and provisions of the indenture, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bonds are outstanding.

**Note 2 – Economic Dependence**

During the fiscal year ended June 30, 2017, the Authority reported rental revenues of \$9,000 pursuant to the rental agreements with Central High Public Schools, Duncan Public Schools and Marlow Public Schools. The amount represents 100% of the authority’s total operating revenues.

**Note 3 – Restricted Cash and Investments**

The Authority had the following restricted cash and investment accounts, which are temporarily invested in federal obligations; consequently, no collateral pledge is required.

Central PS Debt Service Account	\$	1,357
Central PS Rebate Account		3,505
Duncan PS Debt Service Account		8,912
Duncan PS Rebate Account		3,505
Marlow PS Debt Service Account		10,561
Marlow PS Rebate Account		3,505
		31,345
	\$	31,345

**Note 4 – Capital Assets**

The School construction costs are accumulated in a fixed asset account labeled “Improvements to Facilities” and will remain a non-depreciable asset until the lease obligation is fulfilled and title is transferred to the schools. The Authority will provide for the acquisition, construction, equipping, renovating, and remodeling of school buildings, acquiring school furniture, fixtures and equipment and acquiring and improving school sites of Central High School District, Duncan School District, and Marlow School District.

**Stephens County Educational Facilities Authority**  
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Changes to capital assets are as follows:

	6/30/2016	Additions / (Disposals)	6/30/2017
Improvements to Facilities			
Central High School District	\$ 3,819,443	\$ 0	\$ 3,819,443
Duncan School District	12,228,168	0	12,228,168
Marlow School District	10,107,755	0	10,107,755
Total	<u>\$ 26,155,366</u>	<u>\$ 0</u>	<u>\$ 26,155,366</u>

**Note 5 – Accrued Interest**

Interest payments on the bonds are due semi-annually on March 1 and September 1 each year until maturity. Interest payable is accrued from March 1 to June 30 on all bonds.

**Note 6 – Rent Agreement**

The Authority has a commitment with the school districts to lease the facilities. The Authority receives semi-annual rent payments from each school district in the following amounts: Central High School District - \$1,500, Duncan School District - \$1,500 and Marlow School District - \$1,500.

**Note 7 – Capital Lease Agreement (Ground Lease)**

The Authority entered into an agreement to lease the school facilities. Such agreements are, in substance, purchase (capital leases) and are reported as capital lease obligations.

Year Ended June 30	Central High	Duncan	Marlow	Total
2018	\$ 435,300	\$ 2,224,250	\$ 955,050	\$ 3,614,600
2019	445,200	2,218,125	974,850	3,638,175
2020	460,050	0	994,650	1,454,700
2021	469,950	0	1,014,450	1,484,400
2022	484,800	0	1,078,800	1,563,600
2023 - 2025	1,211,250	0	4,409,550	5,620,800
Total	<u>\$ 3,506,550</u>	<u>\$ 4,442,375</u>	<u>\$ 9,427,350</u>	<u>\$ 17,376,275</u>

**Stephens County Educational Facilities Authority**  
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Upon fulfilling the lease obligation, the Authority agrees to execute and deliver to the school district a deed or bill of sale, as appropriate, to convey legal title to the school facilities. The following lease end dates apply to each district: Central High – September 1, 2024, Duncan – September 1, 2018 and Marlow – September 1, 2024.

**Note 8 – Long Term Debt**

On June 6, 2012, the Authority issued its Series 2012 Lease Revenue Bonds in the amount of \$4,145,000, for the purpose of financing school construction projects at Central High School District. The bonds are paid annually in various principal amounts over the period of September 1, 2013 through September 1, 2024. The interest rate on the individual bonds is 2.50 to 4.00 per cent per annum. The bonds were sold at a discount of \$52,088.

Year Ended			
June 30	Principal	Interest	Total
2018	\$ 325,000	\$ 105,282	\$ 430,282
2019	345,000	95,157	440,157
2020	375,000	81,657	456,657
2021	405,000	67,032	472,032
2022	430,000	51,376	481,376
2023 - 2025	1,155,000	55,033	1,210,033
Total	<u>\$ 3,035,000</u>	<u>\$ 455,537</u>	<u>\$ 3,490,537</u>

On June 29, 2012, the Authority issued its Series 2012 Lease Revenue Bonds in the amount of \$12,480,000, for the purpose of financing school construction projects at Duncan School District. The bonds are paid annually in various principal amounts over the period of September 1, 2013 through September 1, 2018. The interest rate on the individual bonds is 2.00 to 5.00 per cent per annum. The bonds were sold at a premium of \$432,362.

Year Ended			
June 30	Principal	Interest	Total
2018	\$ 2,115,000	\$ 100,200	\$ 2,215,200
2019	2,180,000	38,525	2,218,525
Total	<u>\$ 4,295,000</u>	<u>\$ 138,725</u>	<u>\$ 4,433,725</u>

On June 26, 2012, the Authority issued its Series 2012 Lease Revenue Bonds in the amount of \$10,495,000, for the purpose of financing school construction projects at Marlow School District.

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The bonds are paid annually in various principal amounts over the period of September 1, 2013 through September 1, 2024. The interest rate on the individual bonds is 2.00 to 4.00 per cent per annum. The bonds were sold at a premium of \$315,667.

Year Ended June 30	Principal	Interest	Total
2018	\$ 685,000	\$ 263,306	\$ 948,306
2019	725,000	241,100	966,100
2020	775,000	211,100	986,100
2021	825,000	179,100	1,004,100
2022	930,000	144,000	1,074,000
2023 - 2025	4,180,000	222,900	4,402,900
Total	<u>\$ 8,120,000</u>	<u>\$ 1,261,506</u>	<u>\$ 9,381,506</u>

**Note 9 – Changes in Long Term Debt**

Changes in long term debt during the year were as follows:

Bonds Payable	Balance as of 06/30/2016	Decrease	Balance as of 06/30/2017	Due in One Year
Series 12 - Central	\$ 3,340,000	\$ (305,000)	\$ 3,035,000	\$ 325,000
Series 12 - Duncan	6,375,000	(2,080,000)	4,295,000	2,115,000
Series 12 - Marlow	8,770,000	(650,000)	8,120,000	685,000
Total	<u>\$ 18,485,000</u>	<u>\$ (3,035,000)</u>	<u>\$ 15,450,000</u>	<u>\$ 3,125,000</u>

**Note 10 – Supplemental Disclosures**

Supplemental disclosure of cash flow information:

Cash paid during the year for interest expense was \$537,282.

**Note 11 – Risk Protection**

The Authority is covered by the following insurance policies, issued to Stephens County, as protection against possible loss contingencies:

**Stephens County Educational Facilities Authority**  
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**Notes to the Financial Statements**  
**June 30, 2017**

Worker's Compensation and Employer Liability  
Property and Casualty  
Comprehensive General Liability  
Law Enforcement Liability  
Public Officials Errors and Omissions  
Automobile Liability and Physical Damage  
Public Officials Wrongful Acts

**Note 12 – Equity Classifications**

Equity is classified as Net Position and is displayed in three components:

- a) Invested in capital assets, net of related debt—consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b) Restricted net position—consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position—all other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

**Note 13 – Subsequent Events**

Subsequent events were evaluated through November 27, 2017, which is the date the financial statements were available to be issued.



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

To the Board of Commissioners  
Stephens County Educational Facilities Authority  
Duncan, Oklahoma

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 activities of Stephens County Educational Facilities Authority (a discretely presented component unit of Stephens County, Oklahoma), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report there on dated November 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the trust Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the trust Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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.

*Furrh & Associates, PC*

FURRH & ASSOCIATES, PC

Lawton, Oklahoma  
November 27, 2017