

Independent Auditor's Report

Canadian County Educational Facilities Authority

Year Ending June 30, 2014

**CANADIAN COUNTY EDUCATIONAL
FACILITIES AUTHORITY
EL RENO, OKLAHOMA
June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Canadian County Educational Facilities Authority
El Reno, Oklahoma 73036

Trustees:

We have audited the accompanying modified cash basis financial statements of the Canadian County Educational Facilities Authority, Canadian County, Oklahoma, a component unit of Canadian County, as of and for the year ended June 30, 2014, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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 the 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 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 Authority'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 Authority'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

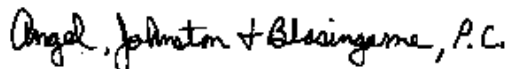
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Canadian County Educational Facilities Authority as of June 30, 2014, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated, January 5, 2015, 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.



Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma

January 5, 2015

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2014

ASSETS

Current Assets	
Cash and cash equivalents	\$ 396,061.14
Investments	0.00
<i>Total Current Assets</i>	<u>\$ 396,061.14</u>
Non Current Assets	
Restricted cash and cash equivalents	0.00
Capital assets	0.00
<i>Total Non Current Assets</i>	<u>\$ 0.00</u>
 <i>Total Assets</i>	 <u><u>\$ 396,061.14</u></u>

LIABILITIES

Current Liabilities	
Due to other funds	0.00
Bonds, notes and loans payable	0.00
<i>Total Current Liabilities</i>	<u>\$ 0.00</u>
Non Current Liabilities	
Due to other funds	0.00
Bonds, notes and loans payable	0.00
<i>Total Non Current Liabilities</i>	<u>\$ 0.00</u>
 <i>Total Liabilities</i>	 <u><u>\$ 0.00</u></u>

NET POSITION

Net Investment in Capital Assets	0.00
Restricted	0.00
Unrestricted	<u>396,061.14</u>
 <i>Total Net Position</i>	 <u><u>\$ 396,061.14</u></u>

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

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2014

Operating Revenues:	
Administration Acceptance Fees	\$ 193,420.14
Reimbursements	<u>5,244.00</u>
<i>Total Operating Revenues</i>	<u>198,664.14</u>
Operating Expenses:	
Professional Services	2,850.00
Reimbursements	2,394.00
Supplies	<u>16.25</u>
<i>Total Operating Expenses</i>	\$ <u>5,260.25</u>
 <i>Net Operating Income (Loss) from operations</i>	 <u>193,403.89</u>
Non-Operating Revenues(Expenses)	
Interest Income	<u>0.00</u>
<i>Total Non-Operating Revenues (Expenses)</i>	\$ <u>0.00</u>
 Change in Net Position	 \$ <u>193,403.89</u>
 <i>Net Assets-Beginning of Year</i>	 <u>202,657.25</u>
 <i>Net Assets-End of Year</i>	 \$ <u><u>396,061.14</u></u>

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

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from bond customers	\$ 193,420.14
Other cash receipts	5,244.00
Cash payments for professional services	(2,850.00)
Cash payments for other expenses	<u>(2,410.25)</u>
<i>Net Cash provided (used) by operating activities</i>	<u>193,403.89</u>
 Cash flows from non-capital and related financing activities:	
Transfers to other funds	<u>0.00</u>
<i>Net Cash provided (used) by non-capital financing activities</i>	<u>0.00</u>
 Cash flows from investing activities:	
Cash invested	0.00
Investment income received	<u>0.00</u>
<i>Net Cash provided (used) by investing activities</i>	0.00
 <i>Net Increase in Cash and Cash Equivalents</i>	 193,403.89
 <i>Beginning Cash and Cash Equivalents</i>	 <u>202,657.25</u>
 <i>Ending Cash and Cash Equivalents</i>	 <u><u>\$ 396,061.14</u></u>
 Reconciliation of Operating Income to Net Income	
Provided by Operating Activities:	
Operating Income	\$ 193,403.89
Adjustments to reconcile operating income to net cash:	
Change in other liabilities	<u>0.00</u>
Net Cash provided (used) by operating activities	<u><u>\$ 193,403.89</u></u>

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

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

1.A. Financial Reporting Entity

Canadian County Educational Facilities Authority, a public trust, created August 3, 2009, for the benefit of Canadian County, Oklahoma, and an agency of the State of Oklahoma. The Authority was created under provisions of the Oklahoma statutes by a Declaration of Trust to furnish the Beneficiary with services and facilities, promote local industrial development, provide cultural and educational activities and facilities, and to assist in financing and constructing other facilities, all for the benefit of the County. The Authority accomplishes its mission through various educational development trusts. The Authority is empowered to borrow money and to pledge assets, properties and revenue as security against its borrowings. The Authority has no taxing power and is not legally required to adopt a budget. Budgetary comparison schedule is not presented.

Canadian County Educational Facilities Authority generally does not acquire any assets or incur any liability when it issues bonds for eligible entities. It may earn and collect administrative fees however and must be informed of the unpaid balances. If however Canadian County Educational Facilities Authority manages the assets and liabilities and does not assign them, the assets and liabilities would be recognized. In the long term debt information section additional information discloses the outstanding obligation, which the authority has facilitated.

Related Organizations

Canadian County - Canadian County Educational Facilities Authority is a public trust, organized 2009. Canadian County is the beneficiary of the trust. The elected Canadian County commissioners are the Authority's trustees. The Authority's financials are material to Canadian County. Therefore the Authority is considered to be a component unit of Canadian County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Canadian County Educational Trust Authority is a component unit of the governmental entity of Canadian County, Oklahoma. Canadian County's financial information is not presented in these financial statements. Canadian County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Net Position

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Notes Payable - Notes Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Authority had no notes payable as of the balance sheet date.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements 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 and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

1.D. Assets, Liabilities and Net Position (continued)

- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1.E. Revenues and Expenses

Operating and Nonoperating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and investing activities are reported as non-operating.

Expenses - The Authority reports expenses relating to the use of economic resources.

1.F Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices. Investments are in compliance with Oklahoma statutes.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority does not have a written policy for custodial risk. Exposure to custodial credit risk related to deposits exist when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority’s name; or collateralized without an approved written collateral agreement. At June 30, 2014 the Authority was exposed to custodial credit risk as defined in the amount of \$146,061.14.

2.B. Restricted Assets

The Authority does not have any restricted assets.

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2.C. Capital Assets

The Authority does not have any capital assets to present.

2.D. Long-Term Debt

CCEFA- Conduit Debt – The Canadian County Educational Facilities Authority has the following conduit debt outstanding at June 30, 2014, in the form of Lease Revenue Bonds:

	<u>Original Issue</u>	<u>Outstanding June 30, 2014</u>
CCEFA- Mustang Public Schools (2009)	\$ 38,070,000	\$13,160,000
CCEFA- Mustang Public Schools (2012)	\$ 64,195,000	\$62,235,000
CCEFA- Calumet Public Schools (2013)	<u>\$ 4,800,000</u>	<u>\$ 4,800,000</u>
Total	<u>\$107,065,000</u>	<u>\$80,195,000</u>

The Canadian County Educational Facilities Authority has the following conduit debt outstanding at June 30, 2014, in the form of Lease Purchase Financing:

	<u>Original Issue</u>	<u>Outstanding June 30, 2014</u>
CCEFA- Maple Public Schools (2012)	\$ 2,988,000	\$ 2,640,968
CCEFA- El Reno Public Schools (2013)	\$33,050,000	\$ 33,050,000
CCEFA- Canadian Valley Technology Center (2013)	<u>\$ 9,950,000</u>	<u>\$ 9,539,770</u>
Total	<u>\$45,988,000</u>	<u>\$ 45,230,738</u>

The Canadian County Educational Facilities Authority has the following conduit debt outstanding at June 30, 2014, in the form of Lease Purchase Refinancing:

	<u>Original Issue</u>	<u>Outstanding June 30, 2014</u>
CCEFA- Canadian Valley Technology Center (2006)	\$ 6,816,686	\$ 5,986,554
CCEFA- Canadian Valley Technology Center (2007)	\$ 4,420,617	\$ 4,260,703
CCEFA- Canadian Valley Technology Center (2009)	<u>\$ 1,520,000</u>	<u>\$ 1,214,316</u>
Total	<u>\$ 12,757,303</u>	<u>\$ 11,461,573</u>

This debt is considered non-commitment debt to the Authority since debt payments are made solely by listed entities. Payments are made directly by the entities to the trustee banks. In the event of default by the schools, the Authority has no obligation, in substance, to make any payments on the debt since the note receivable, financing agreements and mortgages on the property with the school are the only security for the debt. As a result of the non-commitment

CANADIAN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014

2.D. Long-Term Debt (continued)

determination, the Authority's indebtedness and related receivables from the schools are not recorded in the financial statements. Total conduit debt on June 30, 2014 was \$136,887,311.

Note 3 - Risk Management

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries no surety bonds or other types of insurance. As the Authority has no capital assets it carries no property insurance.

Note 4 - Commitments and Contingencies.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

The Authority is dependent upon repayment of debt solely from the beneficiary of the debt issues. If the beneficiary defaulted on the payments it would not have a significant impact on the Authority's financial condition. Conduit debt is non-recourse debt.

Report on Internal Control and Compliance

**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 Trustees
Canadian County Educational Facilities Authority
Lawton, Oklahoma 73501

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 accompanying modified cash basis financial statements of the Canadian County Educational Facilities Authority, a component unit of Canadian County, as of and for the year ended June 30, 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, January 5, 2015.

The report was a special report on the Authority's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of the 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.

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 Authority'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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. 14-01.

Compliance and Other Matters

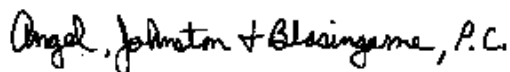
As part of obtaining reasonable assurance about whether Canadian County Educational Facilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 as item 14-02.

Canadian County Educational Facilities Authority's Response to Findings

Canadian County Educational Facilities Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The 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.

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 the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
January 5, 2015

Canadian County Educational Facilities Authority
Schedule of Findings
For the Year Ended June 30, 2014

14-01 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, record keeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

Condition – Presently the same individual performs all accounting functions; receives checks, makes bank deposits, writes checks, reconciles the monthly bank statements and prepares financial summaries.

Cause – The Authority’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation – While it may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the Board should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties.

Management response – Management agrees.

14-02 *Criteria* – Deposits that exceed FDIC insurance should have pledged collateral to secure the Authority’s deposits in the event of a bank failure.

Condition – The Authority did not have collateral pledged to cover monies held at the bank not insured by FDIC. On June 30, 2014, \$146,061.14 was not insured by FDIC.

Cause – An administration fee was received and deposited in October 2013, causing the bank balance to exceed FDIC insurance of \$250,000.

Effect or Potential Effect – Without sufficient collateral pledged, uncollateralized and uninsured deposits are at risk in the event of a bank failure.

Recommendation – Recommend management request a collateral agreement and monitor bank balances to ensure adequate collateral pledged to minimize deposit risk in the event of a bank failure, or deposit monies exceeding FDIC insurance in a second bank.

Management response – Management will correct.