

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
CREEK COUNTY, OKLAHOMA
SAPULPA, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 South Chestnut
PO BOX 1015
BRISTOW, OKLAHOMA 74010-1015

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Trustees
Creek County Educational Facilities Authority
Sapulpa, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Creek County Educational Facilities Authority as of and for the year ended June 30, 2011, which collectively comprise Creek County Educational Facilities Authority's basic financial statements. These financial statements are the responsibility of Creek County Educational Facilities Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note A, Creek County Educational Facilities Authority prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of Creek County Educational Facilities Authority as of June 30, 2011, and the respective changes in financial position-modified cash basis, thereof, in conformity with the basis of accounting described in Note A.

Creek County Educational Facilities Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 19, 2011 on my consideration of Creek County Educational Facilities Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
December 19, 2011

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
CREEK COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 71,518
Trustee accounts	<u>8,533,669</u>

Total current assets	<u>8,605,187</u>
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Non-current assets:

Capital leases receivable, net	<u>18,764,607</u>
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Total non-current assets	<u>18,764,607</u>
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Total assets	<u>27,369,794</u>
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LIABILITIES

Current liabilities:

Bonds payable	<u>2,144,471</u>
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Total current liabilities	<u>2,144,471</u>
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Non-current liabilities:

Bonds payable	<u>25,153,805</u>
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Total non-current liabilities	<u>25,153,805</u>
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Total liabilities	<u>27,298,276</u>
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NET ASSETS

Unrestricted	<u>71,518</u>
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Total net assets	<u>\$ 71,518</u>
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The accompanying notes are an integral part of this financial statement.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
CREEK COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2011

REVENUES

Charges for service	
Received from lessees	\$ 775,725
Admin fees	33,694
Rental fees	8,500
Investment Income	<u>584,449</u>
Total operating revenues	<u>1,402,368</u>

EXPENSES

Trustee fees	46,206
Interest on bonds payable	<u>1,322,396</u>
Total operating expenses	<u>1,368,602</u>
Net income (loss)	33,766
Total net assets, beginning	<u>37,752</u>
Total net assets, ending	<u>\$ 71,518</u>

The accompanying notes are an integral part of this financial statement.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
CREEK COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Cash flows from operating activities	
Cash received from operations	\$ 1,402,368
Cash payments to suppliers for goods and services	<u>(1,368,602)</u>
Net cash provided (used) by operating activities	<u>33,766</u>
Cash flows from capital and related financing activities	
Proceeds from bond	-
Acquisition of fixed assets for capital lease	(7,018,147)
Bond issue cost	-
Bond principal paid	<u>(5,956,724)</u>
Net cash provided by capital and related financing activities	<u>(12,974,871)</u>
Net increase in cash and cash equivalents	(12,941,105)
Cash and cash equivalents, beginning	<u>21,546,292</u>
Cash and cash equivalents, ending	<u>\$ 8,605,187</u>
Reconciliation of income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	<u>\$ 33,766</u>
Net cash provided by operating activities	<u>\$ 33,766</u>

The accompanying notes are an integral part of this financial statement.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Creek County Educational Facilities Authority (the Authority) was created June 5, 2007, under the provision of Title 60, Oklahoma Statutes 2001, Section 176-180.3, inclusive, as amended, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The beneficiary of the trust is Creek County, Oklahoma. The trust is managed by a three member board, each of whom shall be the same persons, ex officio, who currently shall be the acting members of the legally-constituted governing body of Creek County, Oklahoma (the County).

The primary purpose of the Authority is to promote the development of educational, recreational, and cultural activities within and near the territorial limits of Creek County, Oklahoma. The Authority and the County are related organizations. The Authority is not a component unit of the County. Financial transactions do not regularly occur between the Authority and the County. The County is separately audited by the State of Oklahoma, Office of the Auditor and Inspector.

Government-Wide and Fund Financial Statements

The Authority is a special purpose governmental entity engaged only in business type activities. The Authority prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Basis of Accounting, (continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

Cash modifications relate to bonds payable for educational institutions. The Authority has reported as assets cash held for retirement of bonds plus the remaining balance due from each lessee. The balance of bonds payable for the lessees is recorded as a liability. The Authority does not anticipate any liability for any portion of the outstanding bonds. The Authority receives rental payments and trustee fees from the lessees for its assistance. Interest revenue and interest payments are generally the responsibility of the lessee. Once bonds are fully paid the property involved in the lease purchase will belong to the lessee.

FUND TYPES AND MAJOR FUNDS

The Authority reports all activity within a single fund.

Budget

The Authority has not adopted an annual operating budget.

Investments

The Authority follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Authority considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. The Authority has not acquired inventory type items.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Prepaids are not reported under the modified cash basis of accounting.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Capital Assets, Depreciation, and Amortization

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The Authority maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations. Capital assets obtained for other government entities are considered as belonging to the other entity and not the Authority. These assets are included in Capital Leases Receivable and not depreciated.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Employee Benefits

The Authority does not have employees.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Authority will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority, and are held by counterparty or the counterparty's trust department but not in the name of the Authority. The Authority's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2011, all of the Authority's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Authority had deposits at financial institutions with a carrying amount of approximately \$8,605,187 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately \$8,605,187.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Authority did not have fixed income securities at June 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Authority's interest rate risk. As of June 30, 2011, the Authority's deposits consisted of demand deposits and trustee bank managed bond accounts.

NOTE C- CAPITAL LEASE RECEIVABLES

As stated in Note A, one of the primary purposes of the Authority is developing educational facilities. The Authority has, in the course of fulfilling this responsibility, entered into lease purchase agreements with various school districts in Creek County, Oklahoma. The Authority provides a means to finance construction of school buildings.

The Districts will be responsible for repaying the interest and principal payments due on the bonds. The proceeds from the bond issue are held by a trustee bank for use by the Districts. Interest earnings on the funds held by the trustee bank may be used to make interest payments on the bonds. Money held by the trustee bank is reported as trustee accounts in the statement of net assets.

The Authority and the Districts have entered into Ground Lease Agreements and Sublease Agreements covering lease/rental payments on the improvements involved. Rental payments are made to the trustee bank to retire the bond issue. The Sublease Agreement provides for the Authority to receive as additional rent the sum of 1/8th of 1% of the amount of the outstanding principal of the bonds as of each annual anniversary date of the Sublease to defray the administrative and audit costs of the Authority.

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The additional rental payment referred to above is the only gain the Authority anticipates. The Authority will not otherwise profit from the bond issue and improvements.

The improvements will become the property of the District.

Outstanding lease purchase agreements and related bonds are as follows:

The Authority sold its \$1,290,000, Creek County Educational Facilities Authority, Educational Facilities Lease Revenue Bonds (Lone Star Schools Project), Series 2008 dated August 1, 2008 for the purpose of assisting Elementary School District No. 8, Creek County, Oklahoma (the District) in acquiring educational facilities.

The Authority sold its \$6,300,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2008 (Drumright Public Schools Project) dated September 15, 2008 for the purpose of assisting Independent School District No. 39, Creek County, Oklahoma (the District) in acquiring educational facilities.

The Authority sold its \$23,350,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2009A (Sapulpa Public Schools Project) dated September 11, 2009 for the purpose of assisting Independent School District No. 33, Creek County, Oklahoma (the District) in acquiring educational facilities.

The Authority sold its \$305,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2009B (Sapulpa Public Schools Project) dated September 15, 2008 for the purpose of assisting Independent School District No. 33, Creek County, Oklahoma (the District) in acquiring educational facilities.

The schedule of rental payments is as follows:

<u>Year ending</u>	<u>Lone Star</u>	<u>Drumright</u>	<u>Sapulpa (A&B)</u>	<u>Total</u>
<u>June 30</u>	<u>Payment</u>	<u>Payment</u>	<u>Payment</u>	<u>Payment</u>
2012	\$ 3,000	\$ 530,000	\$ 2,472,750	\$ 3,005,750
2013	358,750	545,000	5,343,750	6,247,500
2014	3,000	560,000	2,027,250	2,590,250
2015	368,750	575,000	8,704,500	9,648,250
2016	3,000	595,000	2,966,250	3,564,250
2017-2021	769,000	3,240,000	-	4,009,000
2022-2024	-	2,843,717	-	2,843,717
	<u>\$ 1,505,500</u>	<u>\$ 8,888,717</u>	<u>\$21,514,500</u>	<u>\$31,908,717</u>

Capital lease receivable amounts are calculated based on the amount of the related bond issue and cash amounts held in the trustee bank:

Bonds payable	\$27,298,276
Trustee accounts	<u>(8,533,669)</u>
Net receivable	<u>\$18,764,607</u>

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE D - CAPITAL ASSETS

The Authority does not have capital assets to report.

NOTE E - NOTE PAYABLE

The following is a summary of debt transactions of the Authority for the year ended June 30, 2011.

	<u>Payable at</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2011</u>
Bonds payable				
Bristow	\$ 2,010,000	\$ -	\$(2,010,000)	\$ -
Lone Star	1,290,000	-	(15,000)	1,275,000
Drumright	6,300,000	-	(86,724)	6,213,276
Sapulpa (A)	23,350,000	-	(3,540,000)	19,810,000
Sapulpa (B)	<u>305,000</u>	<u>-</u>	<u>(305,000)</u>	<u>-</u>
	<u>\$ 33,255,000</u>	<u>\$ -</u>	<u>\$(5,956,724)</u>	<u>\$27,298,276</u>

The long-term debt as of June 30, 2011 is as follows:

\$3,445,000, Creek County Educational Facilities Authority, Educational Facilities Lease Revenue Bonds (Bristow Public Schools Project) Series 2007, dated July 1, 2007, interest rate of 4.25% and 4.5% secured by rental payments listed in Note C.	\$ -
\$1,290,000, Creek County Educational Facilities Authority, Educational Facilities Lease Revenue Bonds (Lone Star Schools Project), Series 2008, dated August 1, 2008, interest rate of 3.25% to 4.4% secured by rental payments listed in Note C.	1,275,000
\$6,300,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2008 (Drumright Public Schools Project) dated September 15, 2008, interest rate of 4.85% secured by rental payments listed in Note C.	6,213,276
\$23,350,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2009A (Sapulpa Public Schools Project) dated September 15, 2008, interest rate of 2.52% to 4.93% secured by rental payments listed in Note C.	19,810,000
\$305,000, Creek County Educational Facilities Authority, Lease Revenue Notes, Series 2009B (Sapulpa Public Schools Project) dated September 15, 2008, interest rate of 2.52% secured by rental payments listed in Note C.	-
Total Long-term Debt	<u>\$27,298,276</u>

CREEK COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

The annual debt service requirements to retire the bonds payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 2,144,471	\$ 951,604	\$ 3,096,075
2013	5,384,702	994,307	6,379,009
2014	1,912,788	848,620	2,761,408
2015	9,071,447	830,386	9,901,833
2016	3,256,517	426,687	3,683,204
2017-2021	2,973,003	1,044,491	4,017,494
2022-2024	<u>2,555,348</u>	<u>162,712</u>	<u>2,718,060</u>
Total	<u>\$ 27,298,276</u>	<u>\$ 5,258,807</u>	<u>\$ 32,557,083</u>

The Authority paid interest in the amount of \$1,322,396 on bonds during the current fiscal year.

The difference between the total lease payments and total principal plus interest is anticipated to be made up from earnings on funds held by the trustee bank.

NOTE F - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Sublease Agreement with the District requires the District carry insurance on the project and name the Authority as a co-insured. The Authority does not carry any insurance in any other capacity.

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

To the Honorable Members of the Board of Trustees
Creek County Educational Facilities Authority
Sapulpa, Oklahoma

I have audited the financial statements-modified cash basis of the business-type activities of Creek County Educational Facilities Authority as of and for the year ended June 30, 2011, and have issued my report thereon dated December 19, 2011 which did not include Management's Discussion and Analysis. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Creek County Educational Facilities Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Creek County Educational Facilities Authority's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Creek County Educational Facilities Authority's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creek County Educational Facilities Authority's financial statements-modified cash basis are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
December 19, 2011