

Independent Auditor's Report

Grady County School Finance Authority

Year Ending June 30, 2015

**GRADY COUNTY SCHOOL
FINANCE AUTHORITY
CHICKASHA, OKLAHOMA
June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Grady County School Finance Authority
Chickasha, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Grady County School Finance Authority, Chickasha, Oklahoma, a component unit of Grady County, as of and for the year ended June 30, 2015, 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 opinion.

Opinion

In our 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 the Grady County School Finance Authority as of June 30, 2015, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements which 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, July 21, 2016, 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
July 21, 2016

GRADY COUNTY SCHOOL FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Operating Revenues:	
Administration Acceptance Fees	\$ 36,402.50
Reimbursements	<u>0.00</u>
<i>Total Operating Revenues</i>	<u>36,402.50</u>
Operating Expenses:	
Professional Services	0.00
Supplies	<u>0.00</u>
<i>Total Operating Expenses</i>	<u>\$ 0.00</u>
<i>Operating Income (Loss)</i>	<u>36,402.50</u>
Non-Operating Revenues(Expenses)	
Interest Income	<u>295.45</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>\$ 295.45</u>
Change in Net Position	<u>\$ 36,697.95</u>
<i>Net Position-Beginning of Year</i>	<u>166,219.93</u>
<i>Net Position-End of Year</i>	<u><u>\$ 202,917.88</u></u>

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

GRADY COUNTY SCHOOL FINANCE AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2015

ASSETS

Current Assets	
Cash and cash equivalents	\$ 202,917.88
Investments	0.00
<i>Total Current Assets</i>	\$ 202,917.88
Non Current Assets	
Restricted cash and cash equivalents	0.00
Capital assets	0.00
<i>Total Non Current Assets</i>	\$ 0.00
<i>Total Assets</i>	\$ 202,917.88

LIABILITIES

Current Liabilities	
Bonds, notes and loans payable	0.00
<i>Total Current Liabilities</i>	\$ 0.00
Long-term Liabilities	
Bonds, notes and loans payable	0.00
<i>Total Long-term Liabilities</i>	\$ 0.00
<i>Total Liabilities</i>	\$ 0.00

NET POSITION

Net Investment in Capital Assets	0.00
Restricted	0.00
Unrestricted	202,917.88
<i>Total Net Position</i>	\$ 202,917.88

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

GRADY COUNTY SCHOOL FINANCE AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from bond customers	\$ 36,402.50
Other cash receipts	0.00
Cash payments for professional services	0.00
Cash payments for other expenses	<u>0.00</u>
<i>Net Cash provided (used) by operating activities</i>	<u>36,402.50</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 capital and related financing activities:	
Interest expense	0.00
Purchase of capital assets	<u>0.00</u>
<i>Net Cash provided (used) by capital financing activities</i>	<u>0.00</u>
Cash flows from investing activities:	
Cash invested	0.00
Interest income received	<u>295.45</u>
<i>Net Cash provided (used) by investing activities</i>	<u>295.45</u>
<i>Net Increase in Cash and Cash Equivalents</i>	36,697.95
<i>Beginning Cash and Cash Equivalents</i>	<u>166,219.93</u>
<i>Ending Cash and Cash Equivalents</i>	<u><u>\$ 202,917.88</u></u>
 Reconciliation of Operating Income to Net Income	
Provided by Operating Activities:	
Operating Income	\$ 36,402.50
Adjustments to reconcile operating income to net cash:	<u>0.00</u>
 Net Cash provided (used) by operating activities	 <u><u>\$ 36,402.50</u></u>

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

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

Grady County School Finance Authority is a public trust, created under an indenture dated June 23, 2008. The Authority was created pursuant to Title 60 of the Oklahoma statutes 2001 as amended, section 176, et seq., with Grady County Oklahoma named as beneficiary, 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.

Grady County School Finance 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 and must be informed of the unpaid balances. If however Grady County School Finance 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

Grady County - Grady County School Finance Authority is a public trust, organized in 2008. Grady County is the beneficiary of the trust. The elected Grady County commissioners are the Authority's trustees. The Authority's financials are material to Grady County. Therefore the Authority is considered to be a component unit of Grady County.

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

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.

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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 are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 statement of net position. The Authority had no notes payable at year end.

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.
- 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.

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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

The preparation of financial statements in conformity with modified cash basis of accounting requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

1.G. Differences from GAAP

Modified Cash Basis- As described in Note 1.C., the Authority reports its financial information on the modified cash basis of accounting rather than the GAAP prescribed accrual basis.

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 but state statutes require collateral for uninsured deposits of public trust funds in financial institutions. However, the Authority's balances did not exceed the \$250,000 FDIC insurance level during the fiscal year. Bank deposits on June 30, 2015 were \$202,917.88.

2.B. Capital Assets

The Authority does not have any capital assets to present.

2.C. Long-Term Debt

GCSFA- Conduit Debt – The Grady County School Finance Authority has the following conduit debt outstanding at June 30, 2015, in the form of Lease Revenue Bonds:

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

2.C. Long-Term Debt (continued)

	<u>Original Issue</u>	<u>Outstanding June 30, 2015</u>
GCSFA- Bridgecreek Public Schools (2008)	\$ 7,260,000	\$ 4,110,000
GCSFA- Chickasha Public Schools (2008)	\$ 10,690,000	\$ 7,650,000
GCSFA- Tuttle Public Schools (2009A)	\$ 9,150,000	\$ 4,255,000
GCSFA- Amber-Pocasset School (2012)	\$ 3,535,000	\$ 3,175,000
GCSFA- Middleberg Public Schools (2010)	\$ 3,050,000	\$ 2,425,000
GCSFA- Chickasha Public Schools (2010A)	\$ 12,835,000	\$ 12,835,000
GCSFA- Chickasha Public Schools (2010B)	\$ 1,285,000	\$ 1,210,000
GCSFA- Minco Public Schools (2013)	\$ 9,295,000	\$ 9,045,000
<u>GCSFA- Bridgecreek Public Schools (2015)</u>	<u>\$ 11,955,000</u>	<u>\$ 11,955,000</u>
Total	<u>\$ 69,055,000</u>	<u>\$ 56,660,000</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 determination, the Authority's indebtedness and related receivables from the school are not recorded in the financial statements. Total conduit debt on June 30, 2015 was \$56,660,000.

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.

Note 5 – Subsequent Events

The Authority facilitated the following Lease Revenue Bonds subsequent to year end and the date the financial statements were available to be issued:

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Note 5 – Subsequent Events (continued)

On August 03, 2015, the Authority facilitated \$25,665,000 in lease revenue bonds for Tuttle Public School.

These issue is conduit debt for the Authority.

*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 Board of Trustees
Grady County School Finance Authority
Chickasha, 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 accompanying modified cash basis financial statements of the Grady County School Finance Authority, a component unit of Grady County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, July 21, 2016. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Authority prepares its financial statements on a modified cash basis of accounting, which is 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 Grady County School Finance 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 opinion 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 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 weakness 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 15-01, 15-02, 15-03, 15-04, 15-05, 15-06.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grady County School Finance 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*.

Grady County School Finance Authority's Response to Findings

Grady County School Finance 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 Authority'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
July 21, 2016

Grady County School Finance Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2015

15-01 *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 has determined hiring additional staffing is not cost effective. Despite the fact that the same set of individuals perform the accounting functions, these accounting functions are viewed by at least two individuals prior to such action being taken or confirmed.

Grady County School Finance Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2015

15-02 Criteria – In accordance with the Authority’s trust indenture, the trustees shall elect a person as Secretary of the Trustees. The Secretary shall keep minutes of all meetings of the Trustees and shall maintain complete and accurate records of all financial transactions, all such minutes, books and records shall be on file in the Office of the Trust.

Condition – The Secretary did not maintain a complete and accurate record of all financial transactions, minutes, books and records at the Office of the Trust.

Cause – It appears the Trustees did not elect a Secretary to perform the responsibilities of Secretary, as there was no record of the election. Requested trust documents list the County Clerk as Secretary. The County Clerk states that legal counsel was the Secretary.

Effect or Potential Effect – Not maintaining accurate and continuous continuity of records and transactions significantly increases the risk of improprieties. This is also a violation of the Trust indenture and the Oklahoma Open Records Act.

Recommendation – Recommend management immediately elect a Secretary and ensure the duties of Secretary are carried out to ensure compliance with the trust indenture and Oklahoma statutes.

Management response – Management will take immediate steps to confirm the election of a Secretary.

15-03 Criteria – In accordance with the Authority’s trust indenture, an annual audit of the funds, financial affairs and transactions of the trust shall be filed within a time period and in conformity with provisions of Oklahoma law; to be ordered within 30 days of the close of the fiscal year.

Condition – The Trust was not in compliance with the trust indenture and Oklahoma statutes.

Cause – Trustees did not order annual financial audits within the time frame required by statutes.

Effect or Potential Effect – Noncompliance with the trust indenture and Oklahoma statutes increases the risk of improprieties occurring and not being detected in a timely manner.

Recommendation – Recommend management ensure compliance with trust indenture and Oklahoma statutes.

Management response – Management will correct and has contracted for the annual audits to become compliant with the trust indenture moving forward. Prior to a change in Authority Counsel, annual audits were not completed but are being completed as quickly as possible to become compliant.

Grady County School Finance Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2015

15-04 *Criteria* – In accordance with the Authority’s trust indenture, every non-Trustee officer and/or employee who handles funds of the trust shall furnish a good and sufficient fidelity bond.

Condition – Trust counsel was in control of trust assets and a fidelity bond or record of bonding could not be produced.

Cause – Trustees did not follow requirements of the trust indenture

Effect or Potential Effect – Noncompliance increases risk of fraud and loss of trust assets with non-Trustees handling trust assets without being properly bonded.

Recommendation – Recommend management ensure compliance with trust indenture.

Management response – Management will take steps to confirm that Authority Counsel is bonded.

15-05 *Criteria* – In accordance with the Authority’s trust indenture, the Trustees should elect a person who shall serve as Treasurer.

Condition – While reviewing internal control procedures, it was noted there had not been an individual elected to serve as Treasurer and the duties associated with the position had not been fulfilled.

Cause – Trustees did not follow requirements of the trust indenture.

Effect or Potential Effect – Noncompliance increases risk of fraud and loss of trust assets occurring and not being detected timely.

Recommendation – Recommend management ensure compliance with trust indenture.

Management response – Management will take actions to confirm the election of a treasurer.

Grady County School Finance Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2015

15-06 Criteria- In accordance with the Authority's trust indenture, the Trustee should have an elected treasurer to reconcile revenue on a timely basis.

Condition- While reviewing the revenue for the Authority, it was noted there was a deposit of \$1,212.50 made to the Authority's bank account which was actually another entity's income.

Cause- Trustees did not follow requirements of the trust indenture leading to income being deposited into the wrong bank account.

Effect or Potential Effect- Noncompliance increases risk of fraud and loss of trust assets with non-trustees handling trust assets.

Recommendation – Recommend management ensure compliance with trust indenture. Management should also reimburse the other entity for proceeds deposited in error.

Management Response- Management will take actions to reimburse the other entity for the proceeds deposited in error.