

Independent Auditor's Report

Grady County School Finance Authority

Year Ending June 30, 2016

GRADY COUNTY SCHOOL FINANCE AUTHORITY
CHICKASHA, OKLAHOMA
June 30, 2016

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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 business-type activities of Grady County School Finance Authority, Chickasha, Oklahoma, a component unit of Grady County, as of and for the year ended June 30, 2016, 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

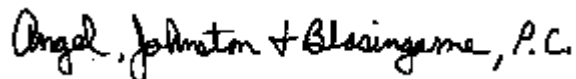
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Grady County School Finance Authority as of June 30, 2016, and the respective changes in modified cash basis financial position and cash flows 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 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, August 27, 2018, 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
August 27, 2018

GRADY COUNTY SCHOOL FINANCE AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2016

ASSETS

Current Assets:

Cash and Cash Equivalents \$ 239,525

Total Current Assets 239,525

Total Assets 239,525

LIABILITIES

Total Current Liabilities 0

Total Liabilities 0

NET POSITION

Net Investment in Capital Assets 0

Unrestricted 239,525

Total Net Position \$ 239,525

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

GRADY COUNTY SCHOOL FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2016

Operating Revenues:	
Administration/ Acceptance Fees	\$ 42,067
Miscellaneous	<u>881</u>
<i>Total Operating Revenues</i>	<u><u>42,948</u></u>
 Operating Expenses:	
Professional Fees	<u>6,685</u>
<i>Total Operating Expenses</i>	<u><u>6,685</u></u>
<i>Operating Income (Loss)</i>	<u><u>36,263</u></u>
 Non-Operating Revenues (Expenses)	
Interest Income	<u>344</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u><u>344</u></u>
Change in Net Position	<u><u>36,607</u></u>
<i>Net Position-Beginning of Year, restated</i>	<u><u>202,918</u></u>
<i>Net Position-End of Year</i>	\$ <u><u><u>239,525</u></u></u>

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, 2016

Cash flows from operating activities:

Receipts from bond customers	\$	42,067
Receipts from miscellaneous		881
Payments to vendors		<u>(6,685)</u>
<i>Net cash provided (used) by operating activities</i>		<u><u>36,263</u></u>

Cash flows from investing activities:

Investment income received (interest)		<u>344</u>
<i>Net cash provided (used) by investing activities</i>		<u><u>344</u></u>

<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>		36,607
<i>Beginning Cash and Cash Equivalents</i>		<u>202,918</u>
<i>Ending Cash and Cash Equivalents</i>	\$	<u><u>239,525</u></u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (used) by Operating Activities:

Operating Income (loss)	\$	<u>36,263</u>
Net Cash Provided (used) by Operating Activities	\$	<u><u>36,263</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, 2016

Note 1 – Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

Grady County School Finance Authority is a public trust, created June 23, 2008, for the benefit of Grady County Oklahoma, and an agency of the State of Oklahoma. The Authority was created 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.

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. Note 3 - Conduit Debt Obligations discloses the outstanding obligation, which the authority has facilitated.

Related Organizations

Grady County - Grady County is the beneficiary of the trust. The elected Grady County commissioners are the Authority's trustees. 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. All activities of the Authority are business-like activities. 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, 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

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 and U.S. Treasury Bills with maturities of three months or less to be cash and cash equivalents.

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, 2016

Note 1 – Summary of Significant Accounting Policies, (continued)

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.

Note 2 – Deposits, Investments and Collateral

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 Oklahoma statutes require collateral for uninsured deposits of public trust funds in financial institutions. At June 30, 2016 the Authority was not exposed to custodial credit risk.

Note 3 – Conduit Debt Obligations

GCSFA- Conduit Debt – The Grady County School Finance Authority has the following conduit debt outstanding at June 30, 2016, in the form of Lease Revenue Bonds:

	<u>Original Issue</u>	<u>Outstanding June 30, 2015</u>
GCSFA- Bridgecreek Public Schools (2008)	\$ 7,260,000	\$ 3,090,000
GCSFA- Chickasha Public Schools (2008)	\$ 10,690,000	\$ 7,650,000
GCSFA- Tuttle Public Schools (2009A)	\$ 9,150,000	\$ 2,660,000
GCSFA- Amber-Pocasset School (2012)	\$ 3,535,000	\$ 2,810,000
GCSFA- Middleberg Public Schools (2010)	\$ 3,050,000	\$ 2,230,000
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	\$ 8,710,000
GCSFA- Bridgecreek Public Schools (2015)	\$ 11,955,000	\$ 11,955,000
GCSFA- Tuttle Public Schools (2016)	\$ 25,665,000	\$ 25,665,000
GCSFA- Alex Public Schools (2016)	\$ 12,865,000	\$ 12,865,000
Total	<u>\$ 107,585,000</u>	<u>\$ 91,680,000</u>

GRADY COUNTY SCHOOL FINANCE AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3 – Conduit Debt Obligations, (continued)

This debt is considered non-commitment debt to the Authority since debt payments are made solely by the schools. Payments are made directly by Alex, Bridgecreek, Chickasha, Tuttle, Amber-Pocasset, Middleberg, and Minco Public Schools 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 accompanying financial statements. Total conduit debt on June 30, 2016 was \$91,680,000.

Note 4 - 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 5 - Commitments and Contingencies.

The Authority is dependent upon repayment of bonds solely from the beneficiary of the bond 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 6 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

*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 modified cash basis financial statements of the business-type activities of the Grady County School Finance Authority, Chickasha, Oklahoma, a component unit of Grady County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, August 27, 2018. 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 an 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

weakness is a deficiency, or a combination of deficiencies, in internal control such that 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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 16-01.

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 significant deficiencies. 16-02, 16-03.

Compliance and Other Matters

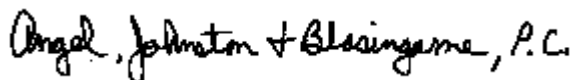
As part of obtaining reasonable assurance about whether Grady County School Finance Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 items 16-01, 16-02 and 16-03.

Grady County School Finance Authority's Response to Findings

Grady County School Finance Authority's response to the findings 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
August 27, 2018

GRADY COUNTY SCHOOL FINANCE AUTHORITY

Schedule of Findings and Responses

For the Year Ended June 30, 2016

16-01 *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 Authority’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.

16-02 *Criteria* – Proper purchasing procedures include maintaining an original invoice supporting every expenditure made by the Authority.

Condition – During testing of expenditures we noted 2 of 3 expenditures were not supported by an itemized invoice. Perryman Law Firm nor the Authority could locate itemized invoices for expenditures totaling \$5,442.50.

Cause – Authority personnel are not following proper purchasing procedures which include maintaining original itemized invoices, signatures of the Authority indicating receipt of goods or services and agreeing the total on the invoice to the total of the check.

Effect or Potential Effect – Not following proper purchasing procedures could lead to the Authority paying for goods not actually received or services not actually rendered.

Recommendation – The Authority should maintain original copies of all invoices received, signed by the Authority indicating goods or services were received and agreeing the total on the invoice to the total of the check issued.

Management Response – Management agrees.

GRADY COUNTY SCHOOL FINANCE AUTHORITY

Schedule of Findings and Responses

For the Year Ended June 30, 2016

16-03 *Criteria* – Payments received by the Authority should be reconciled to the corresponding invoice to ensure correct and timely recording of revenues.

Condition – During testing of Service Revenue it was noted that one payment totaling \$881.25 was received from Minco Public Schools and recorded by the Authority. This erroneous payment belongs to another entity and went undetected until our audit of the Authority.

Cause – The Authority’s limited size, staffing resources and lack of communication have led to a failure to reconcile deposits to invoices.

Effect or Potential Effect – Without proper revenue reconciliation, erroneous deposits could go undetected and therefore cause revenues to be overstated.

Recommendation – We recommend the Authority prepare their own invoices or request copies of prepared invoices from the preparer in order to reconcile payments to corresponding invoices to ensure correct and timely recording of revenues.

Management Response – Management agrees.