

*Independent Auditor's Report*

***Grady County School Finance Authority***

*Year Ended June 30, 2019*

**GRADY COUNTY SCHOOL FINANCE AUTHORITY  
CHICKASHA, OKLAHOMA  
June 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable 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, 2019, 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 modified cash basis financial position of the business-type activities of the Grady County School Finance Authority, Chickasha, Oklahoma as of June 30, 2019, and the changes in modified cash basis financial position, and its cash flows 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 this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2020, 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 solely 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 effectiveness of the Authority's 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 & Blessingame, P.C.*

Chickasha, Oklahoma

**July 13, 2020**

**GRADY COUNTY SCHOOL FINANCE AUTHORITY**  
**Statement of Net Position**  
**Modified Cash Basis**  
**June 30, 2019**

**ASSETS**

**Current Assets**

Cash and cash equivalents \$ 336,883

*Total Assets* 336,883

**LIABILITIES**

*Total Liabilities* 0

**NET POSITION**

Unrestricted 336,883

*Total Net Position* \$ 336,883

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, 2019**

<b>Operating Revenues</b>	
Administration acceptance fees	\$ <u>55,400</u>
<i>Total Operating Revenues</i>	<u>55,400</u>
 <b>Operating Expenses</b>	
Audit and legal fees	<u>20,537</u>
<i>Total Operating Expenses</i>	<u>20,537</u>
<i>Operating Income (Loss)</i>	<u>34,863</u>
 <b>Non-Operating Revenues (Expenses)</b>	
Interest income	<u>1,163</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>1,163</u>
<i>Change in Net Position</i>	<u>36,026</u>
<i>Net Position - Beginning of Year</i>	<u>300,857</u>
<i>Net Position - End of Year</i>	\$ <u><u>336,883</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, 2019**

**Cash flows from operating activities**

Receipts from customers	\$	55,400
Payments to vendors		(20,537)
<i>Net cash provided (used ) by operating activities</i>		<u>34,863</u>

**Cash flows from investing activities**

Interest received		1,163
<i>Net cash provided by (used for) investing activities</i>		<u>1,163</u>

<i>Net increase (decrease) in cash and cash equivalents</i>		36,026
<i>Cash and cash equivalents at beginning of year</i>		300,857
<i>Cash and cash equivalents at end of year</i>	\$	<u><u>336,883</u></u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities**

Operating income (loss)	\$	<u>34,863</u>
<i>Net cash provided by (used for) operating activities</i>	\$	<u><u>34,863</u></u>

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

**GRADY COUNTY SCHOOL FINANCE AUTHORITY**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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.

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](http://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 the activities of the Authority are business type 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**  
**For the Year Ended June 30, 2019**

**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 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 - 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**  
**For the Year Ended June 30, 2019**

**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 limited by State Statutes and declaration of trust.

Custodial Credit Risk - Deposits - 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, 2019 the Authority was undercollateralized by \$86,883.

**Note 3 – Conduit Debt Obligations**

GCSFA- Conduit Debt – The Grady County School Finance Authority has the following conduit debt outstanding at June 30, 2019, in the form of Lease Revenue Bonds:

	<u>Original Issue</u>	<u>Outstanding June 30, 2019</u>
GCSFA- Amber-Pocasset School (2012)	\$ 3,535,000	\$ 1,665,000
GCSFA- Middleberg Public Schools (2010)	\$ 3,050,000	\$ 1,540,000
GCSFA- Chickasha Public Schools (2010A)	\$ 12,835,000	\$ 12,835,000
GCSFA- Chickasha Public Schools (2010B)	\$ 1,285,000	\$ 1,110,000
GCSFA- Minco Public Schools (2013)	\$ 9,295,000	\$ 6,955,000
GCSFA- Bridge Creek Public Schools (2015)	\$ 11,955,000	\$ 11,060,000
GCSFA - Tuttle Public Schools (2015)	\$ 25,665,000	\$ 22,450,000
GCSFA - Alex Public Schools (2016)	\$ 12,865,000	\$ 11,455,000
GCSFA- Amber-Pocasset Public Schools (2016)	\$ 3,485,000	\$ 3,485,000
GCSFA - Alex Public Schools (2018)	\$ 9,455,000	\$ 9,455,000
GCSFA - Minco Public Schools (2018)	\$ 8,725,000	\$ 8,725,000
GCSFA - Bridge Creek Public Schools (2018A)	\$ 2,185,000	\$ 2,185,000
GCSFA - Bridge Creek Public Schools (2018B)	\$ 1,395,000	\$ 1,395,000
<b>TOTAL</b>	<b>\$ <u>105,730,000</u></b>	<b>\$ <u>94,315,000</u></b>

**GRADY COUNTY SCHOOL FINANCE AUTHORITY**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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 Bridge Creek, Chickasha, Tuttle, Amber-Pocasset, Middleberg, Minco and Alex 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 schools are not recorded in the financial statements. Total conduit debt on June 30, 2019 was \$94,315,000.

**Note 4 - Commitments and Contingencies.**

The Authority is dependent upon repayment of debt solely from the beneficiary (school) of the bond issues. If the beneficiary (school) 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**

On May 20, 2019, the Authority approved \$17,000,000 in lease revenue bonds for Amber-Pocasset Public Schools.

On September 6, 2019, the Authority approved \$27,000,000 in lease revenue bonds for Tuttle Public Schools.

This is conduit debt for Amber-Pocasset Public Schools and Tuttle Public Schools and therefore considered non-recourse 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**

The Honorable 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, 2019, 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 13, 2020. 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 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, Chickasha, Oklahoma'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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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. 2019-001.

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. 2019-002, 2019-003, 2019-004.

### **Compliance and Other Matters**

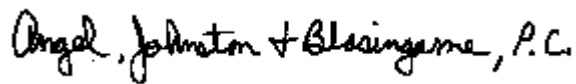
As part of obtaining reasonable assurance about whether Grady County School Finance Authority, Chickasha, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 2019-001, 2019-002, 2019-003, 2019-004.

### **Grady County School Finance Authority, Chickasha, Oklahoma's, Response to Findings**

Grady County School Finance Authority, Chickasha, Oklahoma's response to the findings identified in our audit are described in the attached corrective action plan. 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma  
July 13, 2020

**GRADY COUNTY SCHOOL FINANCE AUTHORITY**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2019**

**2019-001** *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets and record keeping for those assets 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 cash payments, makes bank deposits, writes checks, and prepares monthly 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* – See Corrective Action Plan.

**2019-002** *Criteria* – Oklahoma Statutes Title 62, Section 511-517 & 348.1 require deposits of public funds not exceed the FDIC limit of \$250,000 unless secured by acceptable collateral. Collateral, valued at market value, is required to secure uninsured deposits and includes a requirement that the treasurer review and determine the market value of the pledged collateral not less than quarterly.

*Condition* – The Authority’s funds held at First National Bank exceeded FDIC coverage. Collateral coverage was not adequate for 2019, exposing the balance of \$86,883 to custodial credit risk.

*Cause* – Lack of monitoring through proper procedures and controls led to the under collateralized funds.

*Effect or Potential Effect* – Without sufficient collateral pledged, uncollateralized and uninsured deposits are at risk in the event of a bank failure and the Authority’s non-compliance with Oklahoma Statutes and a potential for custodial credit risk.

*Recommendation* – Management should review and determine the market value of the pledged collateral not less than quarterly.

*Management Response* – See Corrective Action Plan.

**2019-003** *Criteria* – Proper internal control procedures require monthly bank reconciliations.

**GRADY COUNTY SCHOOL FINANCE AUTHORITY**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2019**

*Condition* – Presently, the Authority is not reconciling bank accounts on a monthly basis.

*Cause* – Management was not aware they had to reconcile bank accounts on a monthly basis.

*Effect or Potential Effect* – Without proper handling of accounts and monthly bank reconciliations, there is an increased risk of misappropriation of funds, error and fraud.

*Recommendation* – We recommend that bank accounts be reconciled on a monthly basis.

*Management Response* – See Corrective Action Plan.

**2019-004** *Criteria* – The Authority should maintain signed and approved copies of all Board minutes from every Board meeting.

*Condition* – The Authority has not been maintaining signed copies of the minutes from Board meetings.

*Cause* – The Board has not been signing their meeting minutes.

*Effect or Potential Effect* – Without signed and approved copies of minutes it is difficult to verify approval of any decisions made by the Board.

*Recommendation* – We recommend the Authority maintain signed records of minutes from Board meetings.

*Management Response* – See Corrective Action Plan.



***AUTHORITY'S CORRECTIVE ACTION PLAN***

**AUDIT FINDINGS  
CORRECTIVE ACTION PLAN**

**AUDIT YEAR** 2019

**AUDIT FINDING REFERENCE NUMBER:** 2019-001

**MANAGEMENT RESPONSE:** The Authority will consider the feasibility of hiring additional administrative staff in order to segregate duties in a cost effective manner.

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**AUDIT FINDING REFERENCE NUMBER:** 2019-002

**MANAGEMENT RESPONSE:** The Authority has received a collateral pledge which adequately protects Authority funds over the FDIC limit of \$250,000.00.

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**AUDIT FINDING REFERENCE NUMBER:** 2019-003

**MANAGEMENT RESPONSE:** Management will consider monthly meetings in order to reconcile bank accounts on a monthly basis.

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**AUDIT FINDING REFERENCE NUMBER:** 2019-004

**MANAGEMENT RESPONSE:** The Authority will maintain signed copies of the minutes  
from Board Meetings.

Ralph Brand  
Board Chairman

8-5-2020  
Date