

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

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
Latimer County Educational Facilities Authority
Wilburton, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Latimer County Educational Facilities Authority 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.

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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 from 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 judgement, 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 entity'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 entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

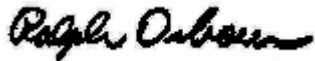
Opinions

As discussed in Note A, Latimer 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 Latimer County Educational Facilities Authority as of June 30, 2016, and the respective changes in financial position-modified cash basis, thereof, in conformity with the basis of accounting described in Note A.

Latimer 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 May 30, 2017 on my consideration of Latimer 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
May 30, 2017

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
LATIMER COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 6,525
Trustee accounts	<u>4,807,159</u>

Total current assets	<u>4,813,684</u>
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Non-current assets:

Receivable from Wilburton Public Schools, net	<u>3,441,348</u>
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Total non-current assets	<u>3,441,348</u>
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Total assets	<u>8,255,032</u>
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LIABILITIES

Current liabilities:

Bonds payable	<u>390,000</u>
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Total current liabilities	<u>390,000</u>
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Non-current liabilities:

Bonds payable	<u>6,135,000</u>
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Total non-current liabilities	<u>6,135,000</u>
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Total liabilities	<u>6,525,000</u>
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NET ASSETS

Restricted for debt	6,007
Restricted for school, net of related debt	1,717,500
Unrestricted	<u>6,525</u>

Total net assets	<u>\$ 1,730,032</u>
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The accompanying notes are an integral part of this financial statement.

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
LATIMER COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

REVENUES

Charges for service	
Lease revenue	\$ 8,242,500
Rental fees	<u>1,500</u>
Total operating revenues	<u>8,244,000</u>

EXPENSES

Trustee fees	2,000
School improvement	<u>6,259,245</u>
Total operating expenses	<u>6,261,245</u>
Net income (loss)	1,982,755

NON-OPERATING REVENUE (EXPENSES)

Investment income	538
Bond issuance cost	(107,875)
Bond Discount	(48,198)
Interest and fees on notes payable	<u>(97,188)</u>
Total non-operating revenue (expenses)	<u>(252,723)</u>
Change in net assets	1,730,032
Total net assets, beginning	<u>-</u>
Total net assets, ending	<u>\$ 1,730,032</u>

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

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
LATIMER COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Cash flows from operating activities	
Cash received from operations	\$ 1,500
Cash payments to suppliers for goods and services	<u>(1,460,093)</u>
Net cash provided (used) by operating activities	<u>(1,458,593)</u>
Cash flows from capital and related financing activities	
Proceeds from bond	6,525,000
Transferred to trustee accounts	(4,807,159)
Bond issuance cost	(107,875)
Bond discount	(48,198)
Bond principal paid	-
Bond interest paid	<u>(97,188)</u>
Net cash provided by capital and related financing activities	<u>1,464,580</u>
Cash flows from investing activities	
Interest income	<u>538</u>
Net cash provided by investing activities	<u>538</u>
Net increase in cash and cash equivalents	6,525
Cash and cash equivalents, beginning	<u>-</u>
Cash and cash equivalents, ending	<u>\$ 6,525</u>
Reconciliation of income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	<u>\$ 1,982,755</u>
Used by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase)/decrease in due from school, net	(8,242,500)
Increase/(decrease) in due to school, net	<u>4,801,152</u>
Net cash provided by operating activities	<u>\$ (1,458,593)</u>

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

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Latimer County Educational Facilities Authority (the Authority) was created June 8, 2016, under the provision of Title 60, Oklahoma Statutes 2011, Section 176-180.3, inclusive, as amended, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. Financial transactions began after July 1, 2015. The beneficiary of the trust is Latimer 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 Latimer County, Oklahoma (the County).

The primary purpose of the Authority is to promote the development of industrial, cultural, housing, healthcare, economic development and educational activities within and near the territorial limits of Latimer 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 long term debt and related receivables. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 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 Receivable from School, net 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.

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, 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 \$4,813,684 at June 30, 2016. The bank balance of the deposits at June 30, 2016 was approximately \$4,813,684.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Authority did not have fixed income securities at June 30, 2016.

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, 2016, 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 a lease purchase agreements with one school district in Latimer County, Oklahoma. The Authority provides a means to finance construction of school buildings.

The District 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 District. 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 District have entered into a Ground Lease Agreement and a Sublease Agreement 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 1/10th 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.

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

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, Latimer County Educational Facilities Authority, Educational Facilities Lease Revenue Bonds (Wilburton Public Schools), Series 2015 dated September 1, 2015 for the purpose of assisting Independent School District No. 001, Latimer County, Oklahoma (the District) in improvement of school sites.

The schedule of rental payments is as follows:

<u>Year ending</u>	Wilburton	Wilburton	Total
<u>June 30</u>	Lease purchase	Lease	Payment
	<u>Payment</u>	<u>Payment</u>	<u>Payment</u>
2017	\$ 588,750	\$ 3,000	\$ 591,750
2018	588,750	3,000	591,750
2019	588,750	3,000	591,750
2020	588,750	3,000	591,750
2021	588,750	3,000	591,750
2022-2025	2,943,750	15,000	2,958,750
2026-2030	<u>2,355,000</u>	<u>13,500</u>	<u>2,368,500</u>
	<u>\$ 8,242,500</u>	<u>\$ 43,500</u>	<u>\$ 8,286,000</u>

Receivable from Wilburton Public School amounts are calculated based on the amount of the related lease purchase acquisition payments receivable outstanding and cash amounts held in the trustee bank for restricted for improvements:

Lease payable	\$ 8,242,500
Trustee accounts	<u>(4,801,152)</u>
Net receivable	<u>\$ 3,441,348</u>

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, 2016.

	<u>Payable at</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u>
	<u>July 1, 2014</u>			<u>June 30, 2016</u>
Bonds payable				
Wilburton	\$ -	\$ 6,525,000	\$ -	\$ 6,525,000
	<u>\$ -</u>	<u>\$ 6,525,000</u>	<u>\$ -</u>	<u>\$ 6,525,000</u>

LATIMER COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The long-term debt as of June 30, 2016 is as follows:

\$6,525,000, Latimer County Educational Facilities Authority, Lease Revenue Notes, Series 2015 (Wilburton Public Schools) dated September 1, 2015, interest rate of 2% to 5% secured by rental payments listed in Note C.	<u>\$ 6,525,000</u>
Total Long-term Debt	<u><u>\$ 6,525,000</u></u>

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

Year Ending June 30	Principal	Interest	Totals
2017	\$ 390,000	\$ 191,563	\$ 581,563
2018	395,000	183,713	578,713
2019	405,000	175,713	580,713
2020	415,000	167,513	582,513
2021	430,000	158,525	588,525
2022-2025	2,320,000	602,172	2,922,172
2026-2030	2,170,000	184,709	2,354,709
Total	<u>\$ 6,525,000</u>	<u>\$ 1,663,906</u>	<u>\$ 8,188,906</u>

The Authority paid interest in the amount of \$97,188 on bonds during the current fiscal year.

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.

Note H - SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 30, 2017, the date on which the financial statements were available to be issued. The Authority does not believe there are any events requiring disclosure.

INDEPENDENT AUDITOR'S 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
Latimer County Educational Facilities Authority
Wilburton, Oklahoma

I have audited, in accordance with the 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, the financial statements-modified cash basis of the business-type activities of Latimer County Educational Facilities Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Latimer County Educational Facilities Authority's basic financial statements, and have issued my report thereon dated May 30, 2017 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Latimer County Educational Facilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Latimer County Educational Facilities Authority's internal control. Accordingly, I do not express an opinion of the effectiveness of Latimer County Educational Facilities Authority's internal control.

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. 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.

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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

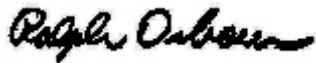
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Latimer 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 30, 2017