

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
LINCOLN COUNTY, OKLAHOMA
CHANDLER, OKLAHOMA
JUNE 30, 2013

Audited By

William A. Ford

Certified Public Accountant

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
LINCOLN COUNTY, OKLAHOMA
June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

TELEPHONE
(405) 258-2405

Board of Trustees
Lincoln County Educational Facilities Authority
Chandler, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma's basic financial statements as listed on 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 the 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 error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

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 Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma, as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows thereof for the years ended, in conformity with the basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 17, 2014, on my consideration of the District'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 my 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 audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Bill Ford, C.P.A.

February 17, 2014

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
LINCOLN COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 19,519
Trustee accounts	<u>750,963</u>
Total current assets	<u>770,482</u>

Non-current assets:

Capital lease receivable	<u>6,113,958</u>
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Total non-current assets	<u>6,113,958</u>
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Total assets	<u>\$ 6,884,440</u>
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LIABILITIES

Non-current liabilities:

Bonds payable	6,285,000
Notes payable	<u>2,433,941</u>

Total non-current liabilities	<u>8,718,941</u>
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Total liabilities	<u>8,718,941</u>
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NET ASSETS

Net assets	<u>(1,834,501)</u>
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Total net assets	<u>\$(1,834,501)</u>
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The accompanying notes are an integral part of this financial statement

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
 LINCOLN COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 MODIFIED CASH BASIS
 JUNE 30, 2013

OPERATING REVENUES

Charges for service	
Rental fees	\$ 25,000
Other income	<u>9,009</u>
 Total operating revenue	 <u>34,009</u>

OPERATING EXPENSES

Administrative & trustee fees	15,502
Audit fee	<u>2,320</u>
 Total operating expenses	 <u>17,822</u>
Operating income (loss)	<u>16,187</u>

NON-OPERATING REVENUE (EXPENSES)

Investment income	34,206
Interest on debt	<u>(426,435)</u>
 Total non-operating revenue (expenses)	 <u>(392,229)</u>
 Net income (loss)	 (376,042)
 Total net assets, beginning	 <u>(1,458,459)</u>
 Total net assets, ending	 <u>\$ (1,834,501)</u>

The accompanying notes are an integral part of this financial statement

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
 LINCOLN COUNTY, OKLAHOMA
 STATEMENTS OF CASH FLOW - MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2013

<u>Cash Flows from Operating Activities</u>	
Cash received from lessee	\$ 34,009
Cash paid to trustees & for administration	<u>(17,822)</u>
Net cash provided (used) by operating activities	<u>16,187</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Payment received on capital lease receivable	1,088,800
Interest paid on debt	(426,435)
Principal paid on debt	<u>(713,879)</u>
Net cash used for capital & related financing activities	<u>(51,514)</u>
 <u>Cash Flows from Investing Activities</u>	
Investment income	<u>34,206</u>
Net cash provided by investing activities	<u>34,206</u>
Net decrease in cash equivalents	(1,121)
Cash and cash equivalents, beginning	<u>771,603</u>
Cash and cash equivalents, ending	<u>\$ 770,482</u>
 <u>Reconciliation of operating income (loss) to net cash provided by (used)</u>	
<u>by operating activities:</u>	
Operating income (loss)	<u>\$ 16,187</u>
Net cash provided by operating activities	<u>\$ 16,187</u>

The accompanying notes are an integral part of this financial statement

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lincoln County Educational Facilities Authority (the Authority) was created June 2, 2008, under the provision of Title 60, Oklahoma Statutes 2001, Section 176-180.3, inclusive, as amended, the Oklahoma Trust Action and other applicable statutes and laws of the State of Oklahoma. The beneficiary of the trust is Lincoln 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 Lincoln County, Oklahoma (the County). The primary purpose of the Authority is to promote, develop, and finance the acquisition, construction, rehabilitation, and equipping of educational facilities located within or near the territorial limits of Lincoln County, Oklahoma. The Authority and the County are related organizations.

Government-Wide and Fund Financial Statements

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

Measurement Focus and Basis of Accounting

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

Measurement Focus:

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

Basis of Accounting:

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

accepted in the United States of America. 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.

FUND TYPES AND MAJOR FUNDS

The Authority reports all activity within a single fund.

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.

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.

Income Tax Status

The Authority is a political instrumentality of Lincoln County, Oklahoma, and therefore exempt from income taxes under the *Internal Revenue Code*.

Capital Assets

Capital assets obtained for other government entities are considered as belonging to the other entity and not the Authority. These assets are included in Capital Leases Receivable and not depreciated. The Authority does not have capital assets to report.

NOTE 2 - CASH AND INVESTMENT

The Authority's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of saving and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

Concentration of Credit Risk - The Authority maintains cash balances with trustee banks. These trustee banks invest the funds from the Authority. Balances are insured by the FDIC at the trustee banks up to \$250,000. At June 30, 2013, the Authority's uninsured cash balances totaled \$500,963.

NOTE 3 - CAPITAL LEASE RECEIVABLES

The Authority has three debt issues during the fiscal period:

- a. \$7,505,000 of Lincoln County Educational Facilities Authority lease revenue bonds, Series 2008, dated September 11, 2008, for the purpose of assisting independent school district No. 54 (Stroud School District), Lincoln County, Oklahoma, in acquiring, constructing, furnishing, and equipping a new gymnasium. 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. Earnings on the funds held by the trustee bank may be used to make interest payments on the bond. Money held by the trustee banks is reported as trustee accounts in the statement of net assets. The Authority (lessee) and the District (lessor) have entered into a Ground Lease Agreement that leases certain real property to the Authority in the amount of \$10 prepaid for the term of the lease. The Authority (lessor) and the District (lessee) have entered into a Sublease Agreement covering lease/rental payments on the improvements involved. Rental payments are made to the trustee bank by the District to retire the bond issue. The Sublease Agreement provides for the Authority to receive as additional rent the sum of one-eighth of 1% of the amount of outstanding principal of the bonds as of each anniversary date of the sublease to defray the administrative and audit costs of the Authority. The improvements will become the property of the District.

The schedule of rental payments are as follows:

<u>Year Ending June 30</u>	<u>Payments</u>
2013	\$ 608,800
2014	628,600
2015	648,400
2016	668,200
2017	683,050
Thereafter	<u>4,180,000</u>
	<u>\$7,417,050</u>

Semi-annual rent payments of \$12,500 are due on March 1 and September 1. The remaining lease payments are lease acquisition payments.

- b. \$2,495,000 of Lincoln County Educational Facilities Authority Lease Revenue Notes, Series 2008, (Prague Public Schools Project), dated October 29, 2008, for the purpose of assisting independent school district No. 103, (Prague School District), Lincoln County, Oklahoma, in acquiring educational facilities. The District will be responsible for repaying the interest and principal payments on the note. The proceeds from the note issue are held by a trustee bank. Earnings on the funds held by the trustee bank may be used to make interest payments on the note. Money held by the trustee bank is reported as trustee accounts in the statement of net assets. The Authority (lessee) and the District (lessor) have entered into a Ground Lease Agreement that leases certain real property to the Authority in the amount of \$10 per year payable in advance. The Authority (lessor) and the District (lessee) have entered into a Lease Purchase Agreement covering lease/rental payments on the improvements involved. Rental payments are made to the trustee bank by the District to retire the note issue. The improvements will become property of the District. The schedule of rental payments are as follows:

<u>Year Ending June 30</u>	<u>Payments</u>
2013	\$ 353,500
2014	367,500
2015	385,000
2016	<u>1,312,226</u>
	<u>\$2,418,226</u>

- c. \$955,000 of Lincoln County Educational Facilities Authority Lease Revenue Notes, Series 2009 (Prague Public Schools Project), dated March 19, 2009, for the purpose of assisting independent school district No. 103 (Prague School District), Lincoln County, Oklahoma, in acquiring educational facilities. The District will be responsible for repaying the interest and principal payments on the note. The proceeds from the note issue are held by a trustee bank. Earnings on the funds held by the trustee bank may be used to make interest payments on the note. Money held by the trustee bank is reported as trustee accounts in the statement of net assets. The Authority (lessee) and the District (lessor) have entered into a Ground Lease Agreement that leases certain real property to the Authority in the amount of \$10 per year payment in advance. The Authority (lessor) and the District (lessee) have entered into a Lease Purchase Agreement covering lease/rental payments on the improvements involved. Rental payments are made to the trustee bank by the District to retire the note issue. The improvements will become the property of the District.

The schedule of rental payments are as follows:

<u>Year Ending June 30</u>	<u>Payments</u>
2013	\$ 151,500
2014	157,500
2015	165,000
2016	<u>352,774</u>
	<u>\$ 826,774</u>

Capital lease receivable transactions summarized for the year ended June 30, 2012

<u>Beginning Balance</u>	<u>Capital</u>		<u>Ending Balance</u>
<u>July 1, 2012</u>	<u>Improvements</u>	<u>Payments</u>	<u>June 30, 2013</u>
<u>\$ 7,202,758</u>	<u>\$ 0</u>	<u>\$1,088,800</u>	<u>\$6,113,958</u>

NOTE 4 - NON-CURRENT DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2012:

	<u>Payable at</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u>
	<u>July 1, 2012</u>			<u>June 30, 2013</u>
Stroud Revenue Bond	\$ 6,635,000	\$ 0	\$ 350,000	\$ 6,285,000
Prague Revenue Notes	2,080,163	0	245,851	1,824,312
Prague Revenue Notes	<u>727,657</u>	<u>0</u>	<u>118,028</u>	<u>609,629</u>
	<u>\$ 9,432,820</u>	<u>\$ 0</u>	<u>\$ 713,879</u>	<u>\$ 8,718,941</u>

The non-current debt as of June 30, 2013, is as follows:

- a.) \$7,505,000 Lincoln County Educational Facilities Authority, Educational Facilities Lease Revenue Bonds (Stroud School District gymnasium), Series 2008, dated September 11, 2008, interest rate of 4.00% to 4.625%, secured by rental payments listed in Note 3. The Authority paid interest of \$321,714 on these bonds during the current fiscal year.

\$ 6,285,000

- b.) \$2,495,000 Lincoln County Educational Facilities Authority, Educational Facilities Lease Revenue Notes (Prague Public Schools project), Series 2008, dated October 29, 2008, interest rate of 5.20%, secured by rental payments listed in Note 3. The Authority paid interest of \$73,880 on these notes during the current fiscal year.

\$1,824,312

- c.) \$955,000 Lincoln County Educational Facilities Authority, Educational Facilities Lease Revenue Notes (Prague Public School project), Series 2009, dated March 19, 2009, interest rate of 4.60%, secured by rental payments listed in Note 3.

\$ 609,629

Total debt June 30, 2013

\$ 8,718,941

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

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>June 30</u>			
2014	\$ 782,093	\$ 401,220	\$ 1,183,313
2015	862,225	365,889	1,228,114
2016	2,039,623	326,891	2,366,514
2017	490,000	228,314	718,314
2018	530,000	207,734	737,734
Thereafter	<u>4,015,000</u>	<u>343,548</u>	<u>4,358,548</u>
Totals	<u>\$ 8,718,941</u>	<u>\$1,873,596</u>	<u>\$10,592,537</u>

NOTE 5 - 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/lease agreements with the Districts requires the Districts to carry insurance on the projects and name the Authority as a co-insured. The Authority does not carry any insurance in any other capacity.

NOTE 6 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 17, 2014, which is the date the financial statements were available to be issued.

WILLIAM A. FORD
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REPORT ON COMPLIANCE AND 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

TELEPHONE
(405) 268-2405

Board of Trustees
Lincoln County Educational Facilities Authority
Chandler, Oklahoma

I 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*, the financial statements-modified cash basis of the business-type activities of Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively compromise Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma's basic financial statements and have issued my report thereon dated February 17, 2014. The financial statements were prepared on a modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States and is not intended to be presented in conformity with United States generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion in the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements 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*.

I noted certain matters that I reported to management of Lincoln County Educational Facilities Authority in a separate letter dated February 17, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bill Ford, C.P.A.

February 17, 2014