

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY  
LINCOLN COUNTY, OKLAHOMA  
CHANDLER, OKLAHOMA  
JUNE 30, 2011

Audited By

William A. Ford

Certified Public Accountant

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY  
LINCOLN COUNTY, OKLAHOMA  
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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, 2011, which collectively comprise Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma's, management. My responsibility is to express my opinion 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 of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma, 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.

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, 2011, 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.

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards

Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by the missing information.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 20, 2012, on my consideration of the 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 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 20, 2012

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY  
 LINCOLN COUNTY, OKLAHOMA  
 STATEMENT OF NET ASSETS  
 MODIFIED CASH BASIS  
 JUNE 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 13,537
Trustee accounts	<u>751,631</u>
Total current assets	<u>765,168</u>

Non-current assets:

Capital lease receivable	<u>8,256,708</u>
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Total non-current assets	<u>8,256,708</u>
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Total assets	<u>\$ 9,021,876</u>
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LIABILITIES

Non-current liabilities:

Bonds payable	6,950,000
Notes payable	<u>3,125,313</u>

Total non-current liabilities	<u>10,075,313</u>
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Total liabilities	<u>10,075,313</u>
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NET ASSETS

Net assets	<u>(1,053,437)</u>
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Total net assets	<u>\$(1,053,437)</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, 2011

OPERATING REVENUES

Charges for service	
Rental fees	\$ 25,000
Other income	<u>4,892</u>
Total operating revenue	<u>29,892</u>

OPERATING EXPENSES

Administrative & trustee fees	11,841
Audit fee	<u>2,975</u>
Total operating expenses	<u>14,816</u>
Operating income (loss)	<u>15,076</u>

NON-OPERATING REVENUE (EXPENSES)

Investment income	34,456
Interest on debt	<u>(512,737)</u>
Total non-operating revenue (expenses)	<u>(478,281)</u>
Net income (loss)	(463,205)
Total net assets, beginning	<u>(590,232)</u>
Total net assets, ending	<u>\$ (1,053,437)</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, 2011

<u>Cash Flows from Operating Activities</u>	
Cash received from lessee	\$ 29,892
Cash paid to trustees & for administration	<u>(14,816)</u>
Net cash provided (used) by operating activities	<u>15,076</u>
 <u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisitions of fixed assets for capital lease	(2,034,885)
Payment received on capital lease receivable	789,150
Interest paid on debt	(512,737)
Principal paid on debt	<u>(322,877)</u>
Net cash used for capital & related financing activities	<u>(2,081,349)</u>
 <u>Cash Flows from Investing Activities</u>	
Investment income	<u>34,456</u>
Net cash provided by investing activities	<u>34,456</u>
Net decrease in cash and cash equivalents	(2,031,817)
Cash and cash equivalents, beginning	<u>2,796,985</u>
Cash and cash equivalents, ending	<u>\$ 765,168</u>
 <u>Reconciliation of operating income (loss) to net cash provided by (used)</u>	
<u>by operating activities:</u>	
Operating income (loss)	<u>\$ 15,076</u>
Net cash provided by operating activities	<u>\$ 15,076</u>

The accompanying notes are an integral part of this financial statement

LINCOLN COUNTY EDUCATIONAL FACILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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, 2011, the Authority's uninsured cash balances totaled \$501,631.

NOTE 3 - CAPITAL LEASE RECEIVABLES

The Authority sold 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>
2012	\$ 593,950
2013	608,800
2014	628,600
2015	648,400
2016	668,200
Thereafter	<u>4,863,050</u>
	<u>\$8,011,000</u>

Semi-annual rent payments of \$12,500 are due on March 1 and September 1. The remaining lease payments are lease acquisition payments. Capital lease receivable amounts incurred during the year consisted of the following:

Improvements	<u>\$1,960,950</u>
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- 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>
2012	\$ 339,500
2013	353,500
2014	367,500
2015	385,000
Thereafter	<u>1,312,226</u>
	<u>\$2,757,726</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>
2012	\$ 145,500
2013	151,500
2014	157,500
2015	165,000
2016	<u>352,774</u>
	<u>\$ 972,274</u>

Capital lease receivable amounts incurred and paid during the year consist of the following:

Improvements	<u>\$ 73,936</u>
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Capital lease receivable transactions summarized for the year ended June 30, 2011

<u>Beginning Balance</u>	<u>Capital</u>		<u>Ending Balance</u>
<u>July 1, 2009</u>	<u>Improvements</u>	<u>Payments</u>	<u>June 30, 2011</u>
<u>\$ 7,010,972</u>	<u>\$ 2,034,886</u>	<u>\$789,150</u>	<u>\$8,256,708</u>

#### NOTE 4 - NON-CURRENT DEBT

The following is a summary of debt transactions of the Authority for the year ended June 30, 2009:

	<u>Payable at</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u>
	<u>July 1, 2010</u>			<u>June 30, 2011</u>
Stroud Revenue Bond	\$7,505,000	\$ 0	\$ 285,000	\$ 6,950,000
Prague Revenue Notes	2,306,380	0	15,825	2,290,555
Prague Revenue Notes	<u>856,809</u>	<u>0</u>	<u>\$ 22,051</u>	<u>834,758</u>
	<u>\$10,398,189</u>	<u>\$ 0</u>	<u>\$ 322,876</u>	<u>\$10,075,313</u>

The non-current debt as of June 30, 2011, 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.

\$ 6,950,000

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.

\$2,290,555

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.

\$ 834,758

Total debt June 30, 2011

\$10,075,313

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 642,492	\$ 462,421	\$ 1,104,913
2013	713,879	433,434	1,147,313
2014	782,093	401,220	1,183,313
2015	965,000	365,889	1,330,889
2016	2,120,000	326,891	2,446,891
Thereafter	<u>4,851,849</u>	<u>779,595</u>	<u>5,631,444</u>
Totals	<u>\$10,075,313</u>	<u>\$2,769,450</u>	<u>\$12,844,763</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.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Lincoln County Educational Facilities Authority  
Chandler, Oklahoma

I have audited the financial statements-modified cash basis of the business-type activities of Lincoln County Educational Facilities Authority (the Authority), Lincoln County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise Lincoln County Educational Facilities Authority, Lincoln County, Oklahoma's basic financial statements and have issued my report thereon dated February 20, 2012, which did not include Management's Discussion and Analysis. 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. 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.

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*.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements - modified cash basis, but not for expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

My consideration of the 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 the internal control that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be a material weakness, as defined above.

This report is intended solely for the information of the Board of Trustees, management, grantors, and the State of Oklahoma, and is not intended to be and should not be used by anyone other than these specified parties.



Bill Ford, C.P.A.

February 20, 2012