

Independent Auditor's Report

Pontotoc County Educational Facilities Authority

Year Ending June 30, 2015

**PONTOTOC COUNTY EDUCATIONAL
FACILITIES AUTHORITY**
ADA, OKLAHOMA
June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pontotoc County Educational Facilities Authority
Ada, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Pontotoc County Educational Facilities Authority, Ada, Oklahoma, a component unit of Pontotoc County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

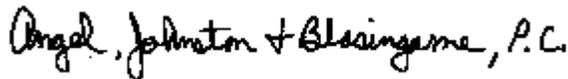
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Pontotoc County Educational Facilities Authority as of June 30, 2015, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements 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 that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, December 21, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
December 21, 2015

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2015

ASSETS

Current Assets	
Cash and cash equivalents	\$ 21,968.50
Investments	<u>0.00</u>
<i>Total Current Assets</i>	<u>21,968.50</u>
Non Current Assets	
Capital assets	<u>0.00</u>
<i>Total Non Current Assets</i>	<u>0.00</u>
 <i>Total Assets</i>	 \$ <u><u>21,968.50</u></u>

LIABILITIES

Current Liabilities	
Bonds, notes and loans payable	\$ <u>0.00</u>
<i>Total Current Liabilities</i>	<u>0.00</u>
Non Current Liabilities	
Bonds, notes and loans payable	<u>0.00</u>
<i>Total Non Current Liabilities</i>	<u>0.00</u>
 <i>Total Liabilities</i>	 \$ <u><u>0.00</u></u>

NET POSITION

Net Investment in Capital Assets	\$ 0.00
Restricted	0.00
Unrestricted	<u>21,968.50</u>
 <i>Total Net Position</i>	 \$ <u><u>21,968.50</u></u>

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

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Operating Revenues:	
Administration Acceptance Fees	\$ 19,073.00
Miscellaneous	0.00
<i>Total Operating Revenues</i>	19,073.00
Operating Expenses:	
Professional Services	3,100.00
Contractual Services	0.00
<i>Total Operating Expenses</i>	3,100.00
<i>Operating Income (Loss)</i>	15,973.00
Non-Operating Revenues (Expenses)	
Interest Income	0.00
<i>Total Non-Operating Revenues (Expenses)</i>	0.00
Change in Net Position	15,973.00
<i>Net Position-Beginning of Year</i>	5,995.50
<i>Net Position-End of Year</i>	\$ 21,968.50

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

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from bond customers	\$ 19,073.00
Other cash receipts	0.00
Cash payments for professional services	(3,100.00)
Cash payments for office expenses	<u>0.00</u>
<i>Net Cash provided (used) by operating activities</i>	<u>15,973.00</u>
Cash flows from noncapital financing activities	
Transfers to other funds	0.00
Transfers from other funds	<u>0.00</u>
<i>Net cash provided (used) by noncapital financing activities</i>	<u>0.00</u>
Cash flows from capital and related financing activities:	
Interest expense	0.00
Purchase of capital assets	<u>0.00</u>
<i>Net Cash provided (used) by capital and related financing activities</i>	<u>0.00</u>
Cash flows from investing activities:	
Cash invested	0.00
Investment income received	<u>0.00</u>
<i>Net Cash provided (used) by investing activities</i>	<u>0.00</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	15,973.00
<i>Beginning Cash and Cash Equivalents</i>	<u>5,995.50</u>
<i>Ending Cash and Cash Equivalents</i>	<u><u>\$ 21,968.50</u></u>
Reconciliation of Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income	\$ 15,973.00
Adjustments to reconcile operating income to net cash provided:	
Change in other liabilities	<u>0.00</u>
Net cash provided (used) by operating activities	<u><u>\$ 15,973.00</u></u>

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

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

Pontotoc County Educational Facilities Authority, a public trust, was organized to function as an educational trust for the benefit of Pontotoc County, Oklahoma, the State of Oklahoma, Governmental Agencies, municipalities and private entities, agencies and citizens in its charitable, scientific, literary or educational purposes and in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the Beneficiary and Pontotoc County in order to lessen the burdens on government and to charitable, scientific, literary or educational economic growth and development of the Pontotoc 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. Budgetary comparison schedule is not presented.

Pontotoc County Educational Facilities 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 however and must be informed of the unpaid balances. If however Pontotoc County Educational Facilities Authority manages the assets and liabilities and does not assign them, the assets and liabilities would be recognized. The Long-term debt note, discloses the outstanding obligation, which the authority has facilitated.

Related Organizations

Pontotoc County - Pontotoc County Educational Facilities Authority is a public trust, organized August 19, 2011, under the provisions of Title 60, Oklahoma Statutes 2001, Sections 176 to 180.4. Pontotoc County is the beneficiary of the trust. The elected Pontotoc County commissioners are the Authority's trustees. The Authority's financials are material to Pontotoc County. Therefore the Authority is considered to be a component unit of Pontotoc County.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Pontotoc County Educational Trust Authority is a component unit of the governmental entity of Pontotoc County, Oklahoma. Pontotoc County's financial information is not presented in these financial statements. Pontotoc County financial audits are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

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 the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

1.D. Assets, Liabilities and Net Position

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Notes Payable - Notes Payable to be repaid from the authority resources are reported as liabilities in the statement of net position. The Authority had no notes payable as of the statement of net position date.

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.

**PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

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.

1.F Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

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 - 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 state statutes require collateral for uninsured deposits of public trust funds in financial institutions. However, the Authority’s balances did not exceed the \$250,000 FDIC insurance level during the fiscal year.

2.B. Capital Assets

The Authority does not have any capital assets to present.

2.C. Long-Term Debt

PCEFA- Conduit Debt – The Pontotoc County Educational Facilities Authority has the following conduit debt outstanding at June 30, 2015, in the form of Lease Revenue Bonds:

	<u>Original Issue</u>	<u>Outstanding June 30, 2015</u>
PCEFA- Ada Public Schools 2014	\$11,485,000	\$11,485,000
PCEFA- Stonewall Public Schools (2012A)	\$ 2,270,000	\$ 2,160,000
PCEFA- Stonewall Public Schools (2012B)	\$ 75,000	\$ 0
PCEFA- Latta Public Schools (2011A)	<u>\$ 5,245,000</u>	<u>\$ 4,715,000</u>
Total	\$19,075,000	\$18,360,000

PONTOTOC COUNTY EDUCATIONAL FACILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

2.C. Long-Term Debt (continued)

This debt is considered non-commitment debt to the Authority. Debt payments are made solely by the schools. Payments are made directly by the schools to Bancfirst, the Trustee. 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 schools 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.

Note 3 - Risk Management

The Authority is exposed to various risks of loss related to torts, errors and omissions. At this time the Authority carries no surety bonds or other types of insurance. As the Authority has no capital assets it carries no property insurance.

Note 4 - Commitments and Contingencies.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

The Authority is dependent upon repayment of bonds solely from the beneficiary of the bond issues. If the beneficiary defaulted on the bond payments it would not have a significant impact on the Authority's financial condition. Conduit debt is non-recourse debt.

Note 5 - Subsequent Events

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

Report on Internal Control and Compliance

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Pontotoc County Educational Facilities Authority
Ada, 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 accompanying modified cash basis financial statements of the Pontotoc County Educational Facilities Authority, a component unit of Pontotoc County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, December 21, 2015. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Authority prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pontotoc 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 our opinions 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.

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 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. 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.

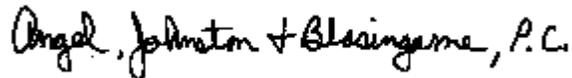
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontotoc County Educational Facilities Authority's financial statements are free of 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 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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
December 21, 2015