

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE PERIOD APRIL 1, 2009 TO MARCH 31, 2010**

**Audited By:  
KERRY JOHN PATTEN, C.P.A.**

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
TRUSTEES  
MARCH 31, 2010**

Trustee	Jim Hargrove
Trustee	Scott Brians
Secretary/Treasurer	Laura Miller (non-trustee)

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
MARCH 31, 2010**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Wagoner County Educational Facilities Authority  
Wagoner, Oklahoma

I have audited the basic financial statements of Wagoner County Educational Facilities Authority as of March 31, 2010, and for the period of April 1, 2009 to March 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Wagoner County Educational Facilities Authority's management. My responsibility is to express an 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 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wagoner County Educational Facilities Authority as of March 31, 2010, and the respective changes in financial position for the initial period then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated July 15, 2011, on my consideration of the Wagoner County Educational Facilities Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of this audit.

The Wagoner County Educational Facilities Authority has not presented a Management's Discussion and Analysis with the financial statements that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Kerry John Patten, C.P.A.  
July 15, 2011

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
STATEMENT OF NET ASSETS  
MARCH 31, 2010**

		<u>Governmental Activities</u>
<b><u>ASSETS</u></b>		
Current Assets		
Restricted cash and cash equivalents	\$	-
Investments		-
Total Current Assets		<u>-</u>
Noncurrent Assets		
Land		-
Construction in progress		-
Total Noncurrent Assets		<u>-</u>
 Total Assets	 \$	 <u>-</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts payable	\$	-
Interest payable		-
Notes payable		-
Total Current Liabilities		<u>-</u>
Noncurrent Liabilities		
Notes payable		-
Total Noncurrent Liabilities		<u>-</u>
 Total Liabilities	 \$	 <u>-</u>
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	\$	-
Restricted		-
Unrestricted		-
 Total Net Assets	 \$	 <u><u>-</u></u>

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

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2010**

		<u>Program Revenues</u>	<u>Net (Expenses) Revenue and Changes in Net Assets</u>
Programs/Projects	<u>Expenses</u>	<u>Charges for Services</u>	<u>Government Activities</u>
<b>Governmental Activities:</b>			
Financial Administration	\$ (2,000)	\$ -	\$ (2,000)
Legal fees	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	\$ <u>(2,000)</u>	\$ <u>-</u>	\$ <u>(2,000)</u>
<b>General Revenues</b>			
Rental payments			4,900,000
Interest and investment earnings			3,538
Miscellaneous			<u>3,251</u>
Total General Revenues			<u>4,906,789</u>
Transfers (net)			13,408,725
Interest expense			(471,830)
Disposition of capital assets			(16,359,128)
Change in Net Assets			1,482,556
Net assets - Beginning			<u>(1,482,556)</u>
Net assets - Ending			<u>\$ <u>-</u></u>

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

**FUND FINANCIAL STATEMENTS**

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE  
MARCH 31, 2010**

	<u>General Fund</u>
<b><u>ASSETS</u></b>	
Restricted Cash	\$ -
Investments	-
	<hr/>
Total assets	\$ -
	<hr/> <hr/>
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ -
Interest payable	-
Note payable	-
	<hr/>
Total liabilities	-
	<hr/>
Total liabilities	\$ -
	<hr/> <hr/>
<b><u>FUND BALANCE</u></b>	
Restricted	\$ -
Unrestricted	-
	<hr/>
Total fund balance	\$ -
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is 0.00 .	-
Long term liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds. These include a note payable.	-
	<hr/>
Net assets of governmental activities	\$ -
	<hr/> <hr/>

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

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR YEAR ENDED MARCH 31, 2010**

	General Fund
<b>Revenues</b>	
Rental payments	\$ 4,900,000
Interest income	3,538
Miscellaneous	3,251
Total Revenues	\$ 4,906,789
<b>Expenses</b>	
Financial administration	\$ 2,000
Interest	124,464
Capital outlay	4,996,497
Total Expenses	\$ 5,122,961
Excess operating revenue over (under) expenses	\$ (216,172)
<b>Other Financing Sources (Uses)</b>	
Transfer out	\$ (6,569,988)
Total Other Income (Expense)	\$ (6,569,988)
Excess revenue over (under) expenses	\$ (6,786,160)
Fund balance, beginning of year	\$ 6,786,160
Fund balance, end of year	\$ -

The accompanying notes are an integral part of these financial statements

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MARCH 31, 2010**

Net change in fund balances-governmental funds	\$	(6,786,160)
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Amounts reported for governmental activities in the statement of revenues, expenditures, and changes in net assets are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of revenues, expenditures, and changes in net assets.

Capital outlay expenditures		4,996,497
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Disposition of capital assets		(16,359,128)
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Repayment of long-term debt is reported as an expenditure in governmental funds, but repayment reduces long-term liabilities in the statement of net assets.		<u>19,631,347</u>
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Changes in net assets of governmental activities	\$	<u><u>1,482,556</u></u>
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The accompanying notes are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENT**

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED MARCH 31, 2010**

**1. Organization**

The Wagoner County Educational Facilities Authority was created under the statutory provision of 60 O.S. 2001, Sections 176 et. seq., as amended and supplemented, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma pursuant to the provisions of a trust indenture dated May 5, 2008. The purposes of the trust include assisting the beneficiary, the State of Oklahoma, its governmental agencies, municipalities and private entities, public school districts, colleges and universities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and the Beneficiary.

The trustees of the Authority consist of three (3) persons appointed by the Wagoner Board of County Commissioners. Upon the expiration of any trustees term of office a successor shall be appointed to a seven year term by a majority vote of the members of the Board of County Commissioners of Wagoner County, the Beneficiary. All trustees shall be citizens and residents of Wagoner County.

The Trustees shall elect by a majority vote a Secretary-Treasurer of the Authority, who may or may not be a trustee.

The Authority has adopted the period April 1 through March 31, as its fiscal year.

**2. Significant Accounting Policies**

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Authority. These statements include the financial activities of the overall governmental program activities excluding fiduciary and internal service activities. The Authority does not have fiduciary activities or internal service activities.

The statement of activities presents a comparison between direct expenses and general revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. General revenues include all other sources. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Authority.

**Fund Financial Statements**

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for through a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Generally, funds are organized into three major categories: governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds. The Authority has one major fund, the General Fund and no enterprise funds. There are no non-major funds.

**Governmental Fund**

The Authority reports one major governmental fund:

The General Fund is the general operating fund of the Authority and is always classified as a major fund.

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED MARCH 31, 2010**

**Significant Accounting Policies (continued)**

It is used to account for all the revenues and expenditures necessary to carry out basic governmental activities of the Authority that are not required to be accounted for through other funds.

**Measurement Focus and Basis of Accounting**

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

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The Authority has no proprietary or fiduciary funds.

The accounting objectives of the economic resources 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 noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gain, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheet. The operating statement present sources and uses of available financial resources during a given period. The fund balance is used as the measure of available expendable financial resources at the end of the period.

Revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collecting within the current period or within ninety days after year-end.

**Equity Classifications**

In government-wide and proprietary fund financial statements, equity is classified as net assets and divided into three components:

- *Investment in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the Authority, not restricted for any project or other purpose.

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED MARCH 31, 2010**

**Significant Accounting Policies (continued)**

In governmental fund financial statements, equity is classified as fund balance. Reservations and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes.

**Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**3. Restricted Net Assets**

The note indenture for the Lease Revenue Note provides that certain reserve accounts be established. The reserve accounts, as of March 31, 2010, are comprised of restricted net assets as follows:

Project Fund	\$	_____ -
Total Restricted Net Assets	\$	_____ -

The Project Fund was established to pay the cost of acquiring, constructing, and equipping the educational facilities. The Project Fund has a zero balance at March 31, 2010, because the lease revenue note was paid off in January 2010.

**4. Cash and Investments**

Deposits and investments made by the Authority are summarized below. The deposits and investments are classified as to credit risk within the following three categories:

1. Insured or registered, or securities held by the Authority or its agent in the Authority's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the Authority's name.
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Authority's name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Not required to be categorized</u>
Deposits	\$ -	\$ -	\$ -	-
Investments	-	-	-	-
Total	\$ _____ -	\$ _____ -	\$ _____ -	

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED MARCH 31, 2010**

**5. Fixed Assets**

The Authority is maintaining records of historical costs of its general fixed assets. Because no general fixed assets have been put into service there is no depreciation expense recorded. Generally Accepted Accounting Principles in the U.S. require the capitalization of all fixed assets and the recognition of depreciation on the fixed assets.

	<u>Balance April 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance March 31, 2010</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 507,060	\$ -	\$ 507,060	\$ -
Construction in Progress	<u>10,855,571</u>	<u>4,996,497</u>	<u>15,852,068</u>	<u>-</u>
Total capital assets not depreciated	\$ <u>11,362,631</u>	\$ <u>4,996,497</u>	\$ <u>16,359,128</u>	\$ <u>-</u>

These assets were transferred out of the Authority in January of 2010, after the Authority was released from the Ground Lease Agreement because Bixby Public Schools refinanced the lease revenue note.

**6. Risk Management**

The Lessee is required, per the Lease Purchase Agreement entered into between the Trust and Bixby Public Schools, to maintain casualty insurance insuring the leased facilities against loss or damage by fire and all other risks covered by the extended coverage endorsement then in use in the state and any other risks reasonably required by the Trust in an amount at least equal to the replacement value of the buildings and improvements located on the leased facilities.

**7. Budget**

The Authority is not required to prepare a formal budget by Oklahoma law.

**8. Note Indenture**

On May 14, 2008, Wagoner County Educational Facilities Authority authorized the issuance of Lease Revenue Notes, Series 2008 (Bixby Public Schools Project) in the aggregate principal amount of \$23,578,000, for the purpose of financing, constructing and equipping certain educational facilities.

The Lease Revenue Note is secured by rental payments received by the Issuer from the school district pursuant to the lease purchase agreement. The Authority has created a security interest in the rental payments, which has been assigned to the trustee bank as security for the lease revenue notes series 2008.

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
WAGONER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED MARCH 31, 2010**

**Note Indenture (continued)**

In January 2010, Bixby Public Schools paid off the lease revenue note, in the amount of \$19,631,347. At the end of the Authority's fiscal year, there was no liability for the note.

	<u>Balance April 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance March 31, 2010</u>
Notes Payable	\$ 23,578,000	\$ -	\$ 23,578,000	\$ -

**9. Lease Purchase Financing**

The Authority entered into a Ground Lease with Bixby Public Schools on May 22, 2008. The land on which buildings or other improvements are to be constructed was leased by Bixby School District to the Wagoner County Educational Facilities Authority for the sum of \$10.00 annually. At the same time, the Wagoner County Educational Facilities Authority entered into a sub-lease, under which the land and facilities constructed on that land were leased back to Bixby School District. The Wagoner County Educational Facilities Authority then issued revenue bonds in the amount of \$23,578,000 to provide approximately \$23,282,889 to pay construction costs of the Bixby Public Schools project. The balance of the revenue bond proceeds was used to pay for costs associated with issuing the revenue bonds. The \$23,282,889 was deposited into a Trustee bank and invested till needed to pay contractor or vendor invoices. Under the Lease Purchase Agreement between the Authority and Bixby School District, the school district will make annual lease purchase payments to the Authority. The Authority will then use the proceeds of these lease purchase payments to retire the revenue bonds issued for this purpose. The lease purchase is secured by rental payments made by the school district to the Authority.

The lease revenue notes were paid off during January of 2010; and the Authority was released from all lease agreements and related liabilities and revenues.

**10. Transfers**

**Statement of Activities**

Amount from Bixby Public Schools for repayment of lease revenue note	\$19,978,713
Remaining cash in Authority account transferred out to Bixby Public Schools	<u>(6,569,988)</u>
Net transfers	\$13,408,725

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

The Board of Trustees  
Wagoner County Educational Facilities Authority  
Wagoner, Oklahoma

I have audited the financial statements of Wagoner County Educational Facilities Authority (the "Authority"), Wagoner, Oklahoma, as of March 31, 2010, and have issued my report thereon dated July 15, 2011. 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.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Wagoner County Educational Facilities Authority's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wagoner County Educational Facilities 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.

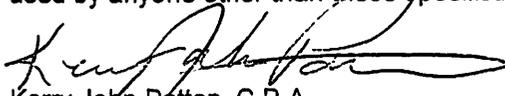
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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 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 deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in Schedule of Comments that I consider to be a significant deficiency in internal control over financial reporting. (Condition I). A significant deficiency is a deficiency, or 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wagoner County Educational Facilities Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the Schedule of Comments as Conditions II.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Kerry John Patten, C.P.A.  
July 15, 2011

**WAGONER COUNTY EDUCATIONAL FACILITIES AUTHORITY  
SCHEDULE OF COMMENTS  
APRIL 1, 2009 TO MARCH 31, 2010**

**Internal Control Comments**

- I. **Condition:** We could not locate evidence that Trust personnel had reconciled Trust records with Trust bank accounts. Bank reconciliations are one of the primary internal controls used in the detection of errors or irregularities. Therefore, their timely preparation is critical to an effective internal control structure.

**Recommendation:** The board of trustees should require that bank statements be reconciled monthly with Trust accounting records to ensure a strong internal control system.

- II **Condition:** An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

**Criteria:** Internal controls should be in places that provide reasonable assurance that any one individual does not have control over several of the financial functions of the Authority.

**Effect:** Because of the inadequate segregation of duties there may be an opportunity for an employee to alter record keeping.

**Recommendation:** We have recommended that the Authority strive to implement an adequate segregation of duties.

**Response:** We concur with the recommendation; however, we have concluded that the cost to correct this condition would exceed the benefit.

**Compliance Comments**

- III. **Condition:** The Trust Indenture states in part, "the secretary shall maintain complete and accurate records of all financial transactions." We were only provided with bank statements and invoices.

**Recommendation:** The Trust should set up an accounting system whether computerized or manual. All transactions should be posted into a double entry accounting system. Accounts should be reconciled monthly, as well as monthly financial statements should be prepared and then approved by the governing board.

- IV. **Condition:** The lease purchase agreement between the Authority and Bixby Public Schools included a provision that the Authority would be paid an annual administrative fee equal to one-sixteenth of one percent of the outstanding balance as of May 22<sup>nd</sup> each year. We found no evidence that this fee had been collected and recorded in the Authority's books.

Management does not expect to collect this fee.