

**EDUCATIONAL FACILITIES AUTHORITY
OF RENO COUNTY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2012

Educational Facilities Authority of Reno County

**Financial Statements
With
Independent Auditor's Report**

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Educational Facilities Authority of Reno County
Hutchinson, Kansas

We have audited the accompanying financial statements of the Educational Facilities Authority of Reno County (Authority) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Swindoll, Janzen, Hawk & Loyd, LLC

Swindoll, Janzen, Hawk & Loyd, LLC

December 15, 2012

Educational Facilities Authority of Reno County

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

Educational Facilities Authority of Reno County (Authority) is proud to present its financial statements for fiscal year 2012. These basic statements are designed to emulate corporate presentation models whereby all activities are consolidated into one total. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets is designed to be similar to bottom line results for the Authority. This statement combines and consolidates current financial resources (short-term expendable resources) with capital assets. The Statement of Revenues, Expenses, and Changes in Net Assets focuses on both the gross costs and the net costs of the Authority's activities which are supported mainly through leases with Hutchinson Community College and Unified School District 308. The Statement of Cash Flows provides information about the cash receipts and disbursements of an entity during the period. This approach is intended to summarize and simplify the user's analysis of costs of various Authority activities.

The discussion and analysis of the Authority's financial statements provide an overview of its financial activities for the year ended June 30, 2012, with comparable data for the year ended June 30, 2011.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Authority as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Authority. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities).

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the Authority. They are also able to determine how much the Authority owes vendors. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Authority.

Net assets are divided into two major categories. The first category is Restricted for: costs relating to building construction. The second is Unrestricted Assets. See the Notes to Financial Statements June 30, 2012 for a complete definition of these asset groups.

Statement of Net Assets

	<u>2011</u>	<u>2012</u>
Assets:		
Current Assets	\$ 329,681	\$ 297,910
Noncurrent Assets	<u>2,174,533</u>	<u>1,790,235</u>
Total Assets	<u>\$ 2,504,214</u>	<u>\$ 2,088,145</u>
Liabilities:		
Current Liabilities	\$ 310,062	\$ 429,206
Noncurrent Liabilities	<u>1,845,000</u>	<u>1,550,000</u>
Total Liabilities:	<u>2,155,062</u>	<u>1,979,206</u>
Net Assets:		
Restricted for:		
Future amortization of excess construction costs	<u>349,152</u>	<u>108,939</u>
Total Net Assets	<u>349,152</u>	<u>108,939</u>
Total Liabilities and Net Assets	<u>\$ 2,504,214</u>	<u>\$ 2,088,145</u>

Total Assets declined from \$2,504,214 in 2011 to \$2,088,145 in 2012; total liabilities declined from \$2,155,062 in 2011 to \$1,979,206 in 2012. This led to a decrease in Net Assets from \$349,152 in 2011 to \$108,939 for a decrease of \$240,213 year to year.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the Authority, both operating and nonoperating, and the expenses paid by the Authority, operating and nonoperating.

Generally speaking, operating revenues consists of the operating lease payments from Unified School District 308 and reimbursements for operating expenses from Hutchinson Community College and Unified School District 308. Operating expenses are those expenses necessary to fulfill the Authority's primary functions. Nonoperating revenues are revenues received primarily from investing activities.

Statement of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2012</u>
Operating revenues	\$ 220,735	\$ 217,144
Operating expenses	<u>104,806</u>	<u>280,826</u>
Operating income/(loss)	115,929	(63,682)
Net nonoperating revenues (expenses)	<u>(186,748)</u>	<u>(176,531)</u>
Income before other revenues	(70,819)	(240,213)
Capital Grants and Gifts		
Net assets - beginning of year	<u>419,971</u>	<u>349,152</u>
Net assets - end of year	<u>\$ 349,152</u>	<u>\$ 108,939</u>

Operating revenues decreased from \$220,735 in 2011 to \$217,144 in 2012. Operating expenses increased from \$104,806 in 2011 to \$280,826 in 2012 while nonoperating expenses were down in 2012 over 2011 amounts, \$176,531 and \$186,748 respectively. Net assets at the end of 2011 were \$349,152 while the same figure in 2012 was \$108,939.

Statement of Cash Flows

The final statement presented by the Authority is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year.

The statement is divided into three parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the Authority. The second section reflects cash flows from capital and related financial activities. This section deals with the cash used for the acquisition and construction of capital and related items. The third section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flow

	<u>2011</u>	<u>2012</u>
Net cash provided (used) by:		
Operating activities	\$ 115,929	\$ 44,078
Capital and related financing activities	<u>(79,975)</u>	<u>(79,999)</u>
Net change in cash	35,954	(35,921)
Cash beginning of year	<u>3,541</u>	<u>39,495</u>
Cash end of year	<u>\$ 39,495</u>	<u>\$ 3,574</u>

Cash at the end of the year decreased from \$39,495 to \$3,575.

Debt Administration

The long-term debt of the Authority is funded through the direct financing lease agreement from Hutchinson Community College and the operating lease agreement from U.S. D. 308 Hutchinson Public Schools. For a detailed discussion of long-term liabilities, see Note 6 in the Notes to the Financial Statements.

Economic Outlook

The Authority is not aware of any currently known facts, decisions, or conditions that are expected to have a significant impact on the financial position or results of operations during this fiscal year beyond those unknown variations having a global impact on virtually all types of business operations.

This report is intended to provide an overview of the Authority's finances. If there are questions about this report or additional information is necessary, contact The Authority's fiscal agent at 1300 N. Plum, Hutchinson, Kansas 67501.

Carter L. File
Secretary Treasurer
Educational Facilities Authority of Reno County

Educational Facilities Authority of Reno County

Statement of Net Assets

June 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ 3,565
Restricted cash and cash equivalents	9
Receivable for direct financing lease	<u>294,336</u>

Total current assets 297,910

Noncurrent Assets

Net investment in direct financing lease (net of unrecognized portion of excess construction costs)	1,744,473
Deferred debt issuance costs, net of accumulated amortization	<u>45,762</u>

Total noncurrent assets 1,790,235

TOTAL ASSETS **\$ 2,088,145**

LIABILITIES

Current Liabilities

Contracts payable	\$ 107,761
Interest payable	26,445
Certificates of participation	<u>295,000</u>

Total current liabilities 429,206

Noncurrent Liabilities

Certificates of participation	<u>1,550,000</u>
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TOTAL LIABILITIES **1,979,206**

NET ASSETS

Restricted for:

Future amortization of excess construction costs	108,939
Unrestricted	<u>-</u>

TOTAL NET ASSETS **108,939**

TOTAL LIABILITIES AND NET ASSETS **\$ 2,088,145**

Educational Facilities Authority of Reno County
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

OPERATING REVENUES	
Revenue from operating lease with District	\$ 115,920
Reimbursement of expenses	<u>101,224</u>
Total operating revenues	<u>217,144</u>
OPERATING EXPENSES	
Administrative costs	23,863
Insurance expense	31,191
Repairs and maintenance	31,305
Utilities	14,866
Improvements to Gowans Stadium	<u>179,601</u>
Total operating expenses	<u>280,826</u>
Operating income (loss)	<u>(63,682)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense on capital asset-related debt	(86,569)
Amortization of excess construction costs	(82,335)
Amortization of debt issuance costs	<u>(7,627)</u>
Net nonoperating revenues (expenses)	<u>(176,531)</u>
INCREASE (DECREASE) IN NET ASSETS	(240,213)
NET ASSETS	
Net assets, beginning of year	<u>349,152</u>
Net assets, end of year	<u>\$ 108,939</u>

Educational Facilities Authority of Reno County

Statement of Cash Flows

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Operating lease receipts from District	\$ 115,920
Reimbursement of expenses	101,225
Improvements	(71,841)
Payments to suppliers	<u>(101,226)</u>

Net cash provided (used) by operating activities	<u>44,078</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES

Capital lease receipts from College	290,187
Principal paid on debt	(280,000)
Interest paid on debt	<u>(90,186)</u>

Net cash provided (used) by capital and related financial activities	<u>(79,999)</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(35,921)
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CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>39,495</u>
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CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>\$ 3,574</u>
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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO
NET CASH USED IN OPERATING ACTIVITIES**

Operating income	\$ (63,682)
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	
Increase (decrease) in payables	<u>107,760</u>

Net cash provided in operating activities	<u>\$ 44,078</u>
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Educational Facilities Authority of Reno County

Notes to Financial Statements

For the year ended June 30, 2012

1. Summary of Significant Accounting Policies

The Educational Facilities Authority of Reno County (the Authority) is a generally accepted accounting principles organized under the laws of the State of Kansas pursuant to the Interlocal Cooperation Act, K.S.A. 12-2901 *et seq.*, as amended and a certain interlocal cooperation agreement dated as of November 1, 2003 (Cooperation Agreement) between Hutchinson Community College and Area Vocational School, Reno County, Kansas (College) and the Unified School District No. 308 (Hutchinson), Reno County, Kansas (District). The Authority has been organized by the College and the District to facilitate the renovation, improvement, and acquisition of educational and athletic facilities as the College and the District determine to be necessary or desirable for their use and the use of the general public in accordance with the provisions of the Cooperation Agreement.

The accounting and reporting policies of the Authority relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(a) Reporting Entity

The Authority is governed by a seven-member board of directors, three of whom are members of and designated by the College's Board of Trustees and three of whom are members of and designated by the District's Board of Education. The seventh director is chosen by the other six directors from the general public. The accompanying financial statements include all funds which are controlled by or are dependent on the Authority.

The Authority is considered to be a joint venture because it is a separate legal entity that is jointly controlled by the College and the District. The College and the District both have an ongoing financial interest as well as an ongoing financial responsibility for the Authority. The Authority's Cooperation Agreement does not define, or grant, an equity interest to either the College or the District, so neither party has an equity interest in the Authority.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. The Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Reimbursement of expenditures are recognized as revenues when the qualifying expense has been incurred and all other requirements have been met.

As permitted by generally accepted accounting principles, the Authority has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed.

(c) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

1. Summary of Significant Accounting Policies (Cont.)

(d) Assets, Liabilities, and Net Assets

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Authority considers all investments with original maturities of one year or less to be cash equivalents.

Investments

The Authority is authorized by KSA 12-1675 to invest monies in U.S. government securities, repurchase agreements, and certain other investments. Investments are recorded at fair value. The Authority currently has no investments.

Lease Arrangements

The Authority's leasing operations consist of lease agreements relating to Gowans Stadium with the College and the District. The lease with the College has been classified as a direct-financing lease and has been recorded on these financial statements. The lease with the District has been classified as an operating lease and therefore is not recorded on these financial statements. The original terms of these leases are ten years for the College and one year for the District, with options to renew the leases through 2018.

Net assets

Net assets represent the difference between assets and liabilities and are classified in the following categories:

- i. Invested in capital assets, net of related debt – This amount consists of the cost of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets. This category is currently not applicable to the Authority.
- ii. Restricted net assets – This amount is restricted by creditors, grantors, contributors, contracts, or laws or regulations of other governments.
- iii. Unrestricted net assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Classification of Revenues

The Authority has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include the lease revenue from the District, reimbursements received for expenses incurred, and any other revenue relating to the operations of the Authority.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, contributions, and investment income.

(e) 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. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There were no violations of Kansas Statutes noted.

3. Deposits and Investments

As of June 30, 2012, the Authority had cash and cash equivalents in financial banking institutions of \$3,574. The Authority did not have any activity in investment-type assets.

The Authority's policies relating to deposits and investments are governed by various Kansas Statutes (KSA). Those statutes specify the type of deposits and investments as well as the securing of those deposits and investments.

Interest rate risk – In accordance with Kansas Statute 12-1675, the Authority manages its exposure to interest rate fluctuations by limiting all time investments to maturities of less than two years.

Credit risk – State law limits the amount of credit risk by restricting governments to specific investment types as listed in KSA 12-1675. The Authority's policy is to place idle funds in certificates of deposit and United States obligations.

Custodial credit risk – The custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Kansas Statutes 9-1402 and 9-1405 require that governments obtain security for all deposits. The Authority manages its custodial credit risk by requiring the financial institutions to grant a security interest in securities held by third-party custodial banks.

Concentration of credit risk – This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority manages this risk by placing funds with financial institutions only after contacting all eligible institutions in the area.

4. Net Investment in Direct Financing Lease

The following lists the components of the net investment in the direct financing lease as of June 30, 2012:

Total minimum lease payments to be received from the College		\$ 1,639,077
Plus the unrecognized portion of excess construction		
Costs that will be amortized over the life of the lease	\$ 946,853	
Less accumulated amortization	<u>(547,121)</u>	<u>399,732</u>
Net investment in direct financing lease		<u>\$ 2,038,809</u>

This amount is reflected in the financial statements as follows:

Current asset	\$ 294,336
Noncurrent asset	<u>1,744,473</u>
Total net investment in direct financing lease	<u>\$ 2,038,809</u>

The following is a schedule of the minimum lease payments:

Years ending June 30,	
2013	\$ 294,336
2014	302,536
2015	309,464
2016	315,226
2017	319,695
2018	<u>97,820</u>
Total minimum lease payments	<u>\$ 1,639,077</u>

5. Operating Lease Activity

The Authority has an operating lease contract with the District dated February 1, 2005. This lease contract has an annual lease term ending June 30 of each fiscal year. The lease automatically renews each year until March 2018. Future rentals under this lease are \$115,920 per year through 2015 and \$80,000 per year for 2016 to 2018.

6. Long-Term Liabilities

The following is a summary of long-term liability transactions for the year ended June 30, 2012:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Current Portion
Certificates of participation	<u>\$ 2,125,000</u>	<u>\$ -</u>	<u>\$ 280,000</u>	<u>\$ 1,845,000</u>	<u>\$ 295,000</u>

The Authority issued the Certificates of Participation Series 2005 with an original issue amount of \$3,490,000 due in annual installments ranging from \$170,000 to \$375,000 through year 2018. The interest rate varies from 4% to 4.6%.

Annual debt service requirements for the certificates of participation are as follows:

Years ending June 30,	Principal	Interest	Total
2013	\$ 295,000	\$ 79,336	\$ 374,336
2014	315,000	67,536	382,536
2015	335,000	54,464	389,464
2016	355,000	40,226	395,226
2017	375,000	24,695	399,695
2018	<u>170,000</u>	<u>7,820</u>	<u>177,820</u>
	<u>\$1,845,000</u>	<u>\$ 274,077</u>	<u>\$ 2,119,077</u>

7. Depreciation Reserve Fund

The College and the District annually contribute money to a Depreciation Reserve Fund (Fund) as required by a lease agreement dated March 1, 2004 between HCC and the District. This Fund is maintained by the College and is on the College's books which is in accordance with the lease provisions.