EDUCATIONAL FACILITIES AUTHORITY
OF RENO COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

Educational Facilities Authority of Reno County

Financial Statements
With
Independent Auditor's Report

June 30, 2013

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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, 2013, 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 accounting principles generally accepted in the United States of America; this includes 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 opinions 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Swindoll, Janzen, Hawk & Loyd, LLC
Swindoll, Janzen, Hawk, & Loyd, LLC

November 22, 2013

www.sjhl.com

Keith S. Janzen, CPA | Kyle J. Hawk, CPA, CMAP | D. Scot Loyd, CPA, CGFM, CFE | Chet L. Buchman, CPA, CVA

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 2013. 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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position 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 Position 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, 2013, with comparable data for the year ended June 30, 2012.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflow of resources (deferred outflows), liabilities, deferred inflow of resources (deferred inflows), and net position of the Authority as of the end of the fiscal year. The Statement of Net Position is a point in time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Authority.

From the data presented, readers of the Statement of Net Position 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 Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows) for expenditure by the Authority.

Net position is divided into two major categories. The first category is Restricted: for costs relating to building construction. The second category is Unrestricted. See the Notes to Financial Statements June 30, 2013 for a complete definition of these two groups.

Statement of Net Position

Total Assets	$ 2,088,145	$ 1,604,570
Liabilities		
Current Liabilities	$ 429,206	$ 417,308
Noncurrent Liabilities	1,550,000	1,235,000
Total Liabilities	1,979,206	1,652,308
Deferred Inflow of Resources:		
Cerrtificate of participation premium	-	33,200
Total Liabilities and Deferred inflow of Resources	1,979,206	1,685,508
Net Position:		
Restricted for:		
Future amortization of excess construction costs	108,939	(80,938)
Total Net Positon	108,939	(80,938)
Total Liabilities and Net Position	$ 2,088,145	$ 1,604,570

Total assets declined from $2,088,145 in 2012 to $1,604,570 in 2013; total liabilities declined from $1,979,206 in 2012 to $1,652,308 in 2013. This led to a decrease in net position from $108,939 in 2012 to $(80,938) for a decrease of $189,877 year to year.

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. 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 consist 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 Position

	2012	2013
Operating revenues	$ 217,144	$ 215,902
Operating expenses	280,826	99,982
Operating income/(loss)	(63,682)	115,920
Net nonoperating revenues (expenses)	(176,531)	(260,035)
Net increase (decrease) in net position	(240,213)	(144,115)
Net position - beginning of year	349,152	108,939
Prior period adjustment	-	(45,762)
Net position - end of year	$ 108,939	$ (80,938)

Operating revenues decreased from $217,144 in 2012 to $215,902 in 2013. Operating expenses decreased from $280,826 in 2012 to $99,982 in 2013 while nonoperating expenses were up in 2013 over 2012 amounts, $260,035 and $176,531 respectively. Net position at the end of 2012 was $108,939 while the same figure in 2013 was $ (80,938).

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 Position.

Statement of Cash Flow

		2012	2013
Net cash provided (used) by:			
Operating activities	$	44,079	$ 80,000
Capital and related financing activities		(79,999)	(80,002)
Net change in cash		(35,920)	(2)
Cash beginning of year		39,495	3,575
Cash end of year	$	3,575	$ 3,573

Cash at the end of the year decreased from $3,575 to $3,573.

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. During fiscal year 2013 the Authority refunded the 2005 Series Certificates of Participation. The refunding was done primarily to take advantage of the historically low interest rates on public financing instruments. The interest rates which were previously 4.15% to 4.6% were lowered to 2.00% for all of the certificates. The length of the obligations and other terms did not change. For a detailed discussion of long-term liabilities, see Note 5 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 Position

June 30, 2013

ASSETS	
Current Assets	
Cash and cash equivalents	$ 3,565
Restricted cash and cash equivalents	8
Receivable for direct financing lease	291,640
Total current assets	295,213
Noncurrent Assets	
Net investment in direct financing lease (net of unrecognized portion of excess construction costs)	1,309,357
Total noncurrent assets	1,309,357
TOTAL ASSETS	$ 1,604,570
LIABILITIES	
Current Liabilities	
Contracts payable	$ 71,841
Interest payable	10,467
Certificates of participation	335,000
Total current liabilities	417,308
Noncurrent Liabilities	
Certificates of participation	1,235,000
TOTAL LIABILITIES	1,652,308
DEFERRED INFLOW OF RESOURCES	
Certificates of participation premium	33,200
TOTAL DEFERRED INFLOW OF RESOURCES	33,200
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES	1,685,508
NET POSITION	
Restricted for:	
Future amortization of excess construction costs	(80,938)
Unrestricted	-
TOTAL NET POSITION	(80,938)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 1,604,570

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

Educational Facilities Authority of Reno County

Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2013

OPERATING REVENUES	
Revenue from operating lease with District	$ 115,920
Reimbursement of expenses	99,982
Total operating revenues	215,902
OPERATING EXPENSES	
Administrative costs	24,826
Insurance expense	31,218
Repairs and maintenance	28,830
Utilities	15,108
Total operating expenses	99,982
Operating income (loss)	115,920
NONOPERATING REVENUES (EXPENSES)	
Interest expense on capital asset-related debt	(63,358)
Amortization of excess construction costs	(82,335)
Cost of issuance	(53,200)
Capital lease receivable reduction due to refinancing	(61,142)
Net nonoperating revenues (expenses)	(260,035)
INCREASE (DECREASE) IN NET POSITION	(144,115)
NET POSITION	
Net position, beginning of year	108,939
Prior period adjustment	(45,762)
Net position, end of year	$ (80,938)

The accompanying notes are an integral part of these financial statements

Educational Facilities Authority of Reno County

Statement of Cash Flows

For the Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Operating lease receipts from District	$ 115,920
Reimbursement of expenses	99,983
Improvements	(35,920)
Payments to suppliers	(99,983)
Net cash provided (used) by operating activities	80,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES	
Capital lease receipts from College	294,334
Principal paid on debt	(275,000)
Interest paid on debt	(79,336)
Cost of issuance	(20,000)
Net cash provided (used) by capital and related financial activities	(80,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	3,575
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	$ 3,573

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED IN OPERATING ACTIVITIES	
Operating income	$ 115,920
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	-
Increase (decrease) in payables	(35,920)
Net cash provided in operating activities	$ 80,000

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

Educational Facilities Authority of Reno County

Notes to Financial Statements

For the year ended June 30, 2013

1. Summary of Significant Accounting Policies

The Educational Facilities Authority of Reno County (the Authority) is a joint venture 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.

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 Position

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.

Deferred Outflow/Inflows of Resources
In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority does not have any of this type of item.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, which is the deferred premium or the Certificaties of Participation reported on the Statement of Net Position. The deferred premium results from the difference in the Certificates of Participation's par value and the actual purchase price of the Certificates of Participation that investors will pay. This amount is deferred and amortized over the life of the Certificates of Participation.

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

i. Net investment in capital asset – 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 position – This amount is restricted by creditors, grantors, contributors, contracts, or laws or regulations of other governments.

iii. Unrestricted net position – This amount is all net position that does not meet the definition of "net investment in capital asset" or "restricted net position".

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.

1. Summary of Significant Accounting Policies (Cont.)

(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 Statues noted.

3. Deposits and Investments

As of June 30, 2013, the Authority had cash and cash equivalents in financial banking institutions of $3,573. 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, 2013:

Total minimum lease payments to be received from the College		$ 1,283,600
Plus the unrecognized portion of excess construction		
Costs that will be amortized over the life of the lease	$ 946,853	
Less accumulated amortization	(629,456)	317,397
Net investment in direct financing lease		$ 1,600,997

This amount is reflected in the financial statements as follows:

Current asset	$ 291,640
Noncurrent asset	1,309,357
Total net investment in direct financing lease	$ 1,600,997

4. Net Investment in Direct Financing Lease (Cont.)

The following is a schedule of the minimum lease payments:

Years ending June 30,	
2014	$ 291,640
2015	299,940
2016	302,940
2017	305,740
2018	83,340
Total minimum lease payments	$ 1,283,600

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 $110,680 per year through 2015 and $74,760 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, 2013:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Current Portion
Certificates of participation 2005	$ 1,845,000	$ -	$1,845,000	$ -	$ -
Certificates of participation 2013	-	1,570,000	-	1,570,000	335,000
Total Long-Term Liabilities	$ 1,845,000	$1,570,000	$1,845,000	$ 1,570,000	$ 335,000

The Authority issued the Certificates of Participation Series 2013 with an original issue amount of $1,570,000 due in annual installments ranging from $155,000 to $370,000 through year 2018. The interest rate is 2.00%.

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

	Principal	Interest	Total
Years ending June 30,			
2014	$ 335,000	$ 31,400	$ 366,400
2015	350,000	24,700	374,700
2016	360,000	17,700	377,700
2017	370,000	10,500	380,500
2018	155,000	3,100	158,100
	$1,570,000	$ 87,400	$ 1,657,400

The above Certificates of Participation were issued as a current refunding of the 2005 Certificates of Participation. The purpose of the refunding was to lower interest rates and provide taxpayers savings. The refunded Certificates of Participation are considered to be defeased and the proceeds were placed in an irrevocable trust which were used to redeem the refunded Certificates of Participation on March 1, 2013. Accordingly, the trust account assets and the liability for the defeased Certificates of Participation are not included in the Authority's financial statements and the liability of the defeased debt has been removed from the financial statements. The reacaquisition price equaled the old debt. The current refunding was undertaken to reduce total debt service payments over the next twenty-six years.

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.

8. Prior Period Adjustment

During the year ended June 30, 2013, the following affected the beginning net position of the Authority:

Changes were made to the bond issue costs to reflect the implementation of GASB 65.	$ 45,762

The net prior period adjustment is shown as a decrease in beginning net position in the Statement of Revenues, Expenses, and Changes in Net Position.

9. Subsequent Events

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.