

**EDUCATIONAL FACILITIES AUTHORITY  
OF RENO COUNTY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Educational Facilities Authority of Reno County**

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

**June 30, 2017**

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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, 2017, 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***

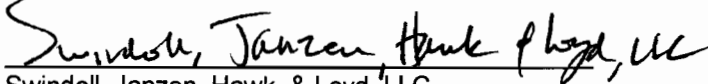
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform 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 opinion.

### ***Opinion***

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, 2017, and the respective changes in net position, and 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  
Hutchinson, KS

December 18, 2017

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## **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 2017. 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 the Authority 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, 2017, with comparable data for the year ended June 30, 2016.

#### **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) available for expenditure by the Authority.

Net position is divided into two major categories, Restricted and Unrestricted. The first category, Restricted, is for costs relating to building construction. The second category is Unrestricted. See the Notes to Financial Statements June 30, 2017 for a complete definition of these two groups.

## Statement of Net Position

	<u>2016</u>	<u>2017</u>
<b>Assets:</b>		
Current Assets	\$ 309,313	\$ 236,392
Noncurrent Assets	153,732	-
<b>Total Assets</b>	<u>\$ 463,045</u>	<u>\$ 236,392</u>
<b>Liabilities:</b>		
Current Liabilities	\$ 165,140	\$ 312,581
Noncurrent Liabilities	376,640	
<b>Total Liabilities</b>	<u>541,780</u>	<u>312,581</u>
<b>Net Position:</b>		
Restricted for:		
Future amortization of excess construction costs	<u>(78,735)</u>	<u>(76,189)</u>
<b>Total Net Position</b>	<u>(78,735)</u>	<u>(76,189)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 463,045</u>	<u>\$ 236,392</u>

Total assets declined from \$463,045 in 2016 to \$ 236,392 in 2017. Total liabilities also declined from \$541,780 in 2016 to \$312,581 in 2017. Overall, there was a slight increase in net position from \$ (78,735) in 2016 to \$(76,189) in 2017.

## 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

	<u>2016</u>	<u>2017</u>
Operating revenues	\$ 193,173	\$ 224,239
Operating expenses	<u>119,174</u>	<u>149,908</u>
Operating income/(loss)	73,999	74,331
Net nonoperating revenues (expenses)	<u>(90,995)</u>	<u>(71,785)</u>
Net increase (decrease) in net position	(16,996)	2,546
Net position - beginning of year	<u>(61,739)</u>	<u>(78,735)</u>
Prior period adjustment		
Net position - end of year	<u>\$ (78,735)</u>	<u>\$ (76,189)</u>

Operating revenues increased from \$193,173 in 2016 to \$224,239 in 2017. Operating expenses also increased from \$119,174 in 2016 to \$149,908 in 2017 and non-operating expenses were down in 2017 from 2016 amounts, \$71,785 and \$90,995 respectively. Net position at the end of 2017 was \$(76,189) while the same figure in 2016 was \$(78,735).

### 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 used for the acquisition and construction of capital and related financial activities. 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

	<u>2016</u>	<u>2017</u>
<b>Net cash provided (used) by:</b>		
Operating activities	\$ (25,326)	\$ 211,150
Capital and related financing activities	<u>(74,760)</u>	<u>(74,760)</u>
<b>Net change in cash</b>	(100,086)	136,390
<b>Cash beginning of year</b>	<u>103,659</u>	<u>3,573</u>
<b>Cash end of year</b>	<u>\$ 3,573</u>	<u>\$ 139,963</u>

Cash at the end of the year increased from \$3,573 to \$139,963. The difference is due to an outstanding payable owed to Hutchinson Community College at June 30, 2017 in the amount of \$136,389.93.

## 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.

Julie A. Blanton  
Secretary Treasurer  
Educational Facilities Authority of Reno County

**Educational Facilities Authority of Reno County**

**Statement of Net Position**

**June 30, 2017**

**ASSETS**

Current Assets

Cash and cash equivalents	\$ 139,963
Receivable from College and District	13,089
Receivable for direct financing lease	<u>83,340</u>

Total current assets	<u>236,392</u>
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TOTAL ASSETS	<u>\$ 236,392</u>
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**LIABILITIES**

Current Liabilities

Contracts payable	\$ 149,908
Interest payable	1,033
Certificates of participation	<u>161,640</u>

Total current liabilities	<u>312,581</u>
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TOTAL LIABILITIES	<u>312,581</u>
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**NET POSITION**

Restricted for:

Future amortization of excess construction costs	<u>(76,189)</u>
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TOTAL NET POSITION	<u>(76,189)</u>
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TOTAL LIABILITIES AND NET POSITION	<u>\$ 236,392</u>
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**Educational Facilities Authority of Reno County**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2017**

<b>OPERATING REVENUES</b>	
Revenue from operating lease with District	\$ 74,760
Reimbursement of expenses	<u>149,479</u>
Total operating revenues	<u>224,239</u>
<b>OPERATING EXPENSES</b>	
Administrative costs	26,918
Insurance expense	36,713
Repairs and maintenance	75,415
Utilities	<u>10,862</u>
Total operating expenses	<u>149,908</u>
Net operating income	<u>74,331</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest expense on capital asset-related debt	(1,393)
Amortization of excess construction costs	<u>(70,392)</u>
Net nonoperating revenues (expenses)	<u>(71,785)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	2,546
<b>NET POSITION</b>	
Net position, beginning of year	<u>(78,735)</u>
Net position, end of year	<u>\$ (76,189)</u>

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, 2017**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Operating lease receipts from District	\$ 74,760
Reimbursement of expenses	<u>136,390</u>

Net cash provided (used) by operating activities	<u>211,150</u>
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**CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES**

Capital lease receipts from College	305,740
Principal paid on debt	(370,000)
Interest paid on debt	<u>(10,500)</u>

Net cash provided (used) by capital and related financial activities	<u>(74,760)</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	136,390
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CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>3,573</u>
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CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>\$ 139,963</u>
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**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Net operating income	\$ 74,331
Changes in operating assets and liabilities:	
(Increase) decrease in receivables	(13,089)
Increase (decrease) in payables	<u>149,908</u>

Net cash provided by operating activities	<u>\$ 211,150</u>
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# **Educational Facilities Authority of Reno County**

## **Notes to Financial Statements**

**For the year ended June 30, 2017**

### **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, Kansas Statutes (KSA) 12-2901 *et seq.*, as amended and a certain interlocal cooperation agreement dated as of November 1, 2003 (Cooperation Agreement) between Hutchinson Community College, 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, Deferred Outflows/Inflows of Resources, 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 Net 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 Net 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 does not have any of this type of item.

#### **Net Position**

Net position represents the difference between assets and liabilities and is 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.

## 2. Stewardship, Compliance, and Accountability

There were no violations of Kansas Statutes noted.

## 3. Deposits and Investments

As of June 30, 2017, the Authority had cash and cash equivalents in financial banking institutions of \$139,963. 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 KSA 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. KSA 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, 2017:

Total minimum lease payments to be received from the College	\$	83,340
Plus the unrecognized portion of excess construction		
Costs that will be amortized over the life of the lease	\$	946,853
Less accumulated amortization	(946,853)	-
Net investment in direct financing lease	\$	<u>83,340</u>

This amount is reflected in the financial statements as follows:

Current asset	\$	223,303
Noncurrent asset		<u>-</u>
Total net investment in direct financing lease	\$	<u>223,303</u>

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

The following is a schedule of the minimum lease payment:

Years ending June 30, 2018	<u>\$ 83,340</u>
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#### 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 \$74,760 per year through 2018.

#### 6. Long-Term Liabilities

The following is a summary of long-term liability transactions for the year ended June 30, 2017:

	Balance at Beginning of Year	Additions	Reductions	Balance at End of Year	Current Portion
Certificates of participation 2013	\$ 525,000	\$ -	\$ 370,000	\$ 155,000	\$ 155,000
Certificates of participation premium	13,280	-	6,640	6,640	6,640
Total Long-Term Liabilities	<u>\$ 538,280</u>	<u>\$ -</u>	<u>\$ 376,640</u>	<u>\$ 161,640</u>	<u>\$ 161,640</u>

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 requirement for the certificates of participation is as follows:

	Principal	Interest	Total
Years ending June 30, 2018	<u>\$ 155,000</u>	<u>\$ 3,100</u>	<u>\$ 158,100</u>

#### 7. 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.

#### 8. 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.