

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**

**Financial Statements  
For the Period Ending June 30, 2011**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Seminole Educational Facilities Authority

We have audited the accompanying Statement of Net Assets of Seminole Educational Facilities Authority, a component unit of the City of Seminole, as of June 30, 2011, and the related Statement of Revenues, Expenses, and Changes in Net Assets, and Cash Flows for the year then ended. These financial statements are the responsibility of the Authority's Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Seminole Educational Facilities Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 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 Seminole Educational Facilities Authority, as of June 30, 2011, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of the Seminole Educational Facilities Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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 our audit.

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
October 14, 2011

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Net Assets**  
**June 30, 2011**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$ <u>          -</u>
Total Current Assets	<u>          -</u>
Noncurrent Assets	
Restricted cash and cash equivalents	432,342
Fixed assets	2,059,384
Unamortized bond issuance costs	<u>          39,748</u>
Total Noncurrent Assets	<u>2,531,474</u>
Total Assets	<u><u>2,531,474</u></u>

**LIABILITIES**

Current Liabilities	
Accrued interest payable	21,295
Current portion of long-term debt	<u>470,000</u>
Total Current Liabilities	<u>491,295</u>
Long-term Liabilities	
Note payable, net of current portion	1,345,000
Less: Unamortized bond discount	<u>(10,240)</u>
Total Long-term Liabilities	<u>1,334,760</u>
Total Liabilities	<u>1,826,055</u>

**NET ASSETS**

Invested in capital assets, net of related debt	223,089
Unrestricted	<u>482,330</u>
Total Net Assets	<u><u>\$ 705,419</u></u>

See accompanying notes to basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2011**

Revenues		
Rental income	\$	498,700
Investment income		<u>10,822</u>
Total Revenues		<u>509,522</u>
Expenses		
Interest expense		68,977
Trustee fees and		8,390
Amortization of issuance costs		<u>18,345</u>
Total Expenses		<u>95,712</u>
Net income (loss)		413,810
Net Assets - Beginning		<u>291,609</u>
Net Assets - Ending	\$	<u><u>705,419</u></u>

See accompanying notes to the basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2011**

Cash Flows From Operating Activities:	
Operating Income (Loss)	\$ <u>413,810</u>
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Amortization of issuance costs	18,346
Amortization of bond premium	4,726
Change in assets and liabilities :	
Decrease (increase) in restricted assets	186,404
Increase (decrease) in accrued liabilities	<u>(4,730)</u>
Total adjustments	<u>204,746</u>
Net Cash Provided (Used) in Operating Activities	<u>618,556</u>
Cash Flows From Non-Capital Financing Activities :	
None	<u>-</u>
Net Cash Provided (Used) in Non-Capital Financing Activities :	
None	<u>-</u>
Cash Flows From Capital and Related Financing Activities :	
Payment on revenue bonds	(430,000)
Acquisition and construction of capital assets	<u>(188,556)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(618,556)</u>
Cash Flows From Investing Activities :	
None	<u>-</u>
Net Cash Provided (Used) in Investing Activities	<u>-</u>
Net Increase (Decrease) in Cash and cash equivalents	-
Cash and cash equivalents - Beginning of Year	<u>-</u>
Cash and cash equivalents - End of Year	<u>-</u>
<u>Supplemental Disclosure</u>	
Cash paid for interest	\$ <u><u>68,980</u></u>

See accompanying notes to the basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Financial Statements**  
*June 30, 2011*

**NOTE 1. ORGANIZATION**

The Seminole Educational Facilities Authority (the "Authority") was created by a trust indenture dated February 12, 2008, for the use and benefit of the City of Seminole for the public purposes set forth under the provisions of Title 60, Oklahoma Statutes 2001, Sections 176 to 180.4, inclusive as amended and supplemented, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma.

The Authority's activities through June 30, 2011, were related principally to the construction of buildings and improvements at educational sites in Seminole, Oklahoma. The construction is being financed with the proceeds of the Educational Facilities Lease Revenue Bonds, Series 2008. At June 30, 2011 construction of the Facility was in progress.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Cash and Cash Equivalents

The Authority considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are carried at cost. Facility construction and related asset purchases are ongoing at June 30, 2011. Depreciation will be provided using the straight line method over the estimated useful lives of the related assets, which are 40 years for buildings and improvements and 5 to 15 years for furniture and equipment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Accounting

The Authority accounts for its activities within a proprietary fund. The Authority's activities meet the definition of an enterprise fund because it is the intent of the Authority to recover, primarily through user charges, the cost of providing goods or services to the general public.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Financial Statements**  
*June 30, 2011*

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets activities are presented on a *full accrual* basis of accounting with an *economic resource* measurement focus. An economic resource focus concentrates on an entity or fund's net assets. All transactions and events that affect the total economic resources (net assets) during the period are reported. An economic resources measurement focus is inextricably connected with full accrual accounting. Under the full accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash inflows and outflows.

NOTE 3. CASH AND INVESTMENTS

The Authority's investment policies are governed by state statute. The table presented below is designed to disclose the level of custody credit risk assumed by the Authority based upon how its deposits were insured or secured with collateral at June 30, 2011. The categories or credit risk are defined as follows:

- Category 1 - Insured by FDIC or collateralized with securities held by the Authority (or public trust) or by its agent in its name.
- Category 2 - Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- Category 3 - Uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement.

At June 30, 2011, all cash and investments were restricted accounts held with the bank trustee for administration of the construction, debt service and reserve accounts.

NOTE 4. PROPERTY AND EQUIPMENT

At June 30, 2011, the construction of the Facility was in progress.

NOTE 5. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2011:

\$2,645,000 Educational Facilities Lease Revenue Bonds, Series 2008 dated September 1, 2008, due in annual principal installments of \$400,000 to \$830,000 through September 1, 2013, with interest rates ranging from 3.20% to 3.60%.	\$ 1,815,000
Less : Unamortized bond discount	(10,240)
Net Revenue Bonds Payable	\$ 1,804,760



**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Financial Statements**  
*June 30, 2011*

NOTE 5. BONDS PAYABLE, continued

Changes in Long-Term Debt

The following is a summary of debt transactions for the year ended June 30, 2011:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Bonds payable - Series 2008	\$ 2,245,000	-	430,000	1,815,000	470,000
	<u>\$ 2,245,000</u>	<u>-</u>	<u>430,000</u>	<u>1,815,000</u>	<u>470,000</u>

Annual Debt Service Requirements

A summary of the future debt service requirements on the outstanding debt is as follows:

Year Ending	
December 31,	
2012	\$ 525,894
2013	553,892
2014	844,940
Total principal and interest	<u>1,924,726</u>
Less: Interest	<u>109,726</u>
Principal outstanding at June 30, 2011	<u>\$ 1,815,000</u>

NOTE 6. LEASE AGREEMENT

The Authority has entered into a ground lease and a sublease with the Seminole Independent School District No. 1 for the use and the maintenance of the Facility. The lease and the sublease commenced on April 1, 2008 and extend until June 30, 2014 and so long thereafter as any Bond shall remain outstanding and unpaid, but shall expire on the date on which the Bonds are paid, defeased or redeemed.

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

To the Board of Trustees  
Seminole Educational Facilities Authority  
Seminole, Oklahoma

We have audited the financial statements of Seminole Educational Facilities Authority (the Authority), an Oklahoma Trust, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 2011. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Seminole Educational Facilities Authority's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Seminole Educational Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Seminole Educational Facilities 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 material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2011-1 is considered a significant deficiency. 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.

## **Finding 2011-1 Presentation of Financial Statements**

In accordance with accounting standard SAS 115, should management choose to allow the auditors to prepare the City's financial statements, including full footnote disclose, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

### **Management Response**

In accordance with the Statement of Auditing Standards (SAS) No. 115, it is the responsibility of Seminole Educational Facilities Authority to prepare the Organization's financial statements. The Seminole Educational Facilities Authority chose to allow the independent auditor to prepare the financial statements for the reporting period, as has been standard practice for previous audits. It is important to note that this practice is not precluded under the guideline, but rather is listed as a significant deficiency under published standards.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Seminole Educational Facilities Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
October 14, 2011