

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
AS OF AND FOR THE FISCAL YEAR ENDED  
JUNE 30, 2013**

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Seminole Educational Facilities 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 of 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 Authority'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 Authority'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 Seminole Educational Facilities Authority as of June 30, 2013, and the respective changes in financial position its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 on our consideration of the Seminole Educational Facilities Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Seminole Educational Facilities Authority's internal control over financial reporting and compliance.

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

Midwest City, Oklahoma  
September 20, 2013

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Net Position**  
**June 30, 2013**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$ <u>-</u>
Total Current Assets	<u>-</u>
Noncurrent Assets	
Restricted cash and cash equivalents	268,771
Fixed assets	<u>2,216,757</u>
Total Noncurrent Assets	<u>2,485,528</u>
Total Assets	<u><u>2,485,528</u></u>

**LIABILITIES**

Current Liabilities	
Accrued interest payable	9,960
Current portion of long-term debt	<u>830,000</u>
Total Current Liabilities	<u>839,960</u>
Long-term Liabilities	
Note payable, net of current portion	<u>-</u>
Total Long-term Liabilities	<u>-</u>
Total Liabilities	<u>839,960</u>

**NET POSITION**

Net investment in capital assets	1,376,797
Unrestricted	<u>268,771</u>
Total Net Position	\$ <u><u>1,645,568</u></u>

See accompanying notes to basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2013**

Revenues	
Rental income	\$ 552,025
Investment income	<u>305</u>
Total Revenues	<u>552,330</u>
Expenses	
Interest expense	32,884
Trustee fees	<u>3,865</u>
Total Expenses	<u>36,749</u>
Net income (loss)	515,581
Net Position - Beginning	<u>1,129,987</u>
Net Position - Ending	<u><u>\$ 1,645,568</u></u>

See accompanying notes to the basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

Cash Flows From Operating Activities:	
Operating Income (Loss)	\$ <u>515,581</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Change in assets and liabilities :	
Decrease (increase) in restricted assets	58,828
Increase (decrease) in accrued liabilities	<u>(6,008)</u>
Total adjustments	<u>52,820</u>
Net Cash Provided (Used) in Operating Activities	<u>568,401</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	(515,000)
Acquisition and construction of capital assets	<u>(53,401)</u>
Net Cash Provided (Used) in Capital and Related Financing Activities	<u>(568,401)</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></u>
<u>Supplemental Disclosure</u>	
Cash paid for interest	\$ <u><u>38,893</u></u>

See accompanying notes to the basic financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Basic Financial Statements**  
***June 30, 2013***

**(1) Summary of Significant Accounting Policies -**

**A. Organization and Management**

The Seminole Educational Facilities Authority (SEDA) 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, 2013, 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, 2013 construction of the Facility was in progress.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation - Fund Accounting**

The accounts of the SEDA are organized as a proprietary fund that is considered to be a separate accounting entity. The operations of the fund are summarized by providing a separate set of self-balancing accounts that include its assets, liabilities, Net Position, revenues and expenses. A proprietary fund is used to account for operations that are financed in a manner similar to a private business enterprise where the costs (expenses, including depreciation) of providing facilities is financed through lease rentals. Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) are included in the balance sheet.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 29 SEDA has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB.

**C. Assets, Liabilities and Equity**

**1. Restricted Cash and Investments**

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held at the Trustee Bank in Escrow, Debt Service, Reserve and Construction Accounts. Under the terms and provisions of the Debt Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the debt and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any debt is outstanding. Monies contained in accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.



**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Basic Financial Statements**  
*June 30, 2013*

**(1) Summary of Significant Accounting Policies - Continued**

**C. Assets, Liabilities and Equity - Continued**

**1. Restricted Cash and Investments - Continued**

The Authority had the following restricted cash and investments at June 30, 2013:

Project Construction Account	\$	-
Debt Service Account		103
Reserve Account		<u>268,668</u>
Total	\$	<u><u>268,771</u></u>

**2. Fair Value of Financial Statements**

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**3. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the required 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 those estimates.

**4. Capital Assets**

Additions to the buildings and equipment are recorded at cost or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses in the period they occur.

**5. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Basic Financial Statements**  
**June 30, 2013**

**(1) Summary of Significant Accounting Policies - Continued**

**C. Assets, Liabilities and Equity - Continued**

**6. Long-Term Obligations**

Long-term debt is reported as a liability in the Authority's Statement of Net Position. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as "other noncurrent assets" and amortized over the term of the related debt.

**7. Equity Classifications**

Equity is classified as Net Position and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position - Consists of Net Position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - All other Net Position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**8. Tax Exempt Status**

The Seminole Educational Facilities Authority with the City of Seminole, Oklahoma as the Beneficiary, is exempt from income tax under Internal Revenue Code Section 115.

**(2) Capital Assets -**

At June 30, 2013, the construction of the Facility was in progress.

**(3) Long-Term Debt -**

As of June 30, 2013, the long-term debt consisted of the following:

\$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%.

Net Revenue Bonds Payable

\$	830,000
\$	<u>830,000</u>

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Basic Financial Statements**  
*June 30, 2013*

**(3) Long-Term Debt - Continued**

Changes in Long-Term Debt

The following is a summary of debt transactions for the year ended June 30, 2013:

	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	\$ 1,345,000	-	515,000	830,000	830,000
	<u>\$ 1,345,000</u>	<u>-</u>	<u>515,000</u>	<u>830,000</u>	<u>830,000</u>

Annual Debt Service Requirements

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

Year Ending December 31, 2014	\$ 844,940
Total principal and interest	844,940
Less: Interest	14,940
Principal outstanding at June 30, 2013	<u>\$ 830,000</u>

**(4) Lease Purchase Agreement (Sub Lease) -**

The Authority has a commitment with the Seminole Public Schools to lease specific "Real Property" identified in the Sublease Agreement dated April 1, 2008. Future minimum rental commitments for operating leases as of June 30, 2013 are as follows:

Year Ended June 30,	<u>Rent</u>
2014 \$	<u>2,000</u>
\$	<u>2,000</u>

The rent is due in equal semi-annual installments on or before the 1<sup>st</sup> of September and March ending September 20, 2013.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY**  
**Notes to Basic Financial Statements**  
*June 30, 2013*

**(6) 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. The Authority purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability.

**(7) Subsequent Events -**

Management has evaluated subsequent events through September 20, 2013, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

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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**

### **INDEPENDENT AUDITOR'S REPORT**

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

We have audited, in accordance with the 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, the financial statements of the Seminole Educational Facilities Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Seminole Educational Facilities Authority's basic financial statements and have issued our report thereon dated September 20, 2013.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Seminole Educational Facilities Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Seminole Educational Facilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Seminole Educational Facilities Authority's internal control.

*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. 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.

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of reportable

findings and responses that we consider to be significant deficiencies, referred to as Finding 2013-01.

### **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*.

### **Seminole Educational Facilities Authority's Response to Findings**

The Seminole Educational Facilities Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Seminole Educational Facilities Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Midwest City, Oklahoma  
September 20, 2013

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

**Finding 2013-01 - Internal Control - Trial Balance and Material Adjusting Journal Entries**

*Criteria* - The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balance required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balance prior to audit.

*Condition* - The government's trial balance for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: transactions related to the construction project and debt service.

*Cause* - Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditor's arrival to perform fieldwork. As a result, management had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance. However, management was able to review, understand and accept the adjusting entries proposed by the external auditor in order to take responsibility for them and the financial statements.

*Effect or Potential Effect* - As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over completeness and accuracy of the trial balances that are used in the preparation of financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management continues to rely on the external auditor. To detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

**SEMINOLE EDUCATIONAL FACILITIES AUTHORITY  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

*Recommendation* - The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

*Management's Response* - Management concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.