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JAN 04 2012

State Auditor & Inspector

Rec: 30109

**Saint Gregory's University Authority**  
Shawnee, Oklahoma

*Financial Statements*

June 30, 2011 and 2010  
(With Independent Auditors' Report Thereon)





**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Saint Gregory's University Authority  
Shawnee, Oklahoma

We have audited the accompanying statements of net assets of Saint Gregory's University Authority (the "Authority") as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 2 and 6, the Authority repaid all bonds outstanding on December 1, 2010. Although the statement of net assets reflects no assets or liabilities at June 30, 2011, the Authority remains a viable entity as it has no operational expenses and Saint Gregory's University (the "University") has chosen not to terminate the Authority and could utilize the Authority at a future date if so desires.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

(Continued)

**INDEPENDENT AUDITORS' REPORT, CONTINUED**

Management has omitted the management's discussion and analysis that the Governmental Accounting Standards Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In connection with our audits, nothing came to our attention that caused us to believe that the Authority failed to comply with the provisions of Section 901 of the Indenture of Trust by and between the Authority and the Bank of Oklahoma, Oklahoma City, Oklahoma (the "Trustee"), dated December 1, 1999, and amended through June 30, 2000, insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

With respect to the above paragraph, this report is intended solely for the information and use of the Board of Trustees of the Authority, the management of the Authority, and the Trustee and should not be used by anyone other than these specified parties.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 23, 2011

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**STATEMENTS OF NET ASSETS**

| <i>June 30,</i>  | <i>2011</i> <sup>(1)</sup> | <i>2010</i> |
|--|----------------------------|-------------|
| <b>Assets</b>  |                            |             |
| Current assets:  |                            |             |
| Cash and cash equivalents:   |                            |             |
| Restricted for:  |                            |             |
| Bond reserve fund  | \$ -                       | 750,000     |
| Rebate reserve fund  | -                          | 8,152       |
| Principal payments on bonds  | -                          | 301,093     |
| Interest payments on bonds   | -                          | 25,495      |
| Total restricted   | -                          | 1,084,740   |
| Total cash and cash equivalents  | -                          | 1,084,740   |
| Accrued interest receivable  | -                          | -           |
| Note receivable from Saint Gregory's University,<br>current portion      | -                          | 532,500     |
| Total current assets   | -                          | 1,617,240   |
| Note receivable from Saint Gregory's University,<br>less current portion | -                          | 3,487,084   |
| Total assets   | \$ -                       | 5,104,324   |
| <b>Liabilities and Net Assets</b>  |                            |             |
| Current liabilities:   |                            |             |
| Accrued interest payable   | \$ -                       | 21,595      |
| Revenue bonds, current maturities  | -                          | 515,000     |
| Total current liabilities  | -                          | 536,595     |
| Revenue bonds, less current maturities                                   | -                          | 3,805,000   |
| Deferred credit  | -                          | 492,518     |
| Total liabilities  | -                          | 4,834,113   |
| Net assets:  |                            |             |
| Unrestricted net assets  | -                          | 270,211     |
| Total liabilities and net assets   | \$ -                       | 5,104,324   |

<sup>(1)</sup> As of June 30, 2011, the Authority had no assets or liabilities.

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**

| <i>Years Ended June 30,</i>                                    | <i>2011</i> | <i>2010</i> |
|--|-------------|-------------|
| <b>Operating activities:</b>                                   |             |             |
| Revenues:  |             |             |
| Interest from Saint Gregory's University on<br>note receivable | \$ 107,978  | 270,462     |
| Interest expense on revenue bonds                              | 107,978     | 270,462     |
| Operating income   | -           | -           |
| <b>Other income (expense):</b>                                 |             |             |
| Interest income from investing                                 | 696         | 1,461       |
| Management fee received from Saint Gregory's University        | -           | 641         |
| Management and other fees paid                                 | (4,475)     | (641)       |
| Redemption premium paid  | (38,050)    | -           |
| Distribution to Saint Gregory's University                     | (3,809)     | -           |
| Reduction of note receivable from Saint Gregory's University   | (224,573)   | -           |
| Other (expense) income, net                                    | (270,211)   | 1,461       |
| <b>Changes in net assets</b>                                   | (270,211)   | 1,461       |
| Net assets, beginning of year                                  | 270,211     | 268,750     |
| Net assets, end of year  | \$ -        | 270,211     |

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**STATEMENTS OF CASH FLOWS**

**Increase (Decrease) in Cash and Cash Equivalents**

| <i>Years Ended June 30,</i>   | <i>2011</i>        | <i>2010</i>      |
|---|--------------------|------------------|
| <b>Cash flows from operating activities:</b>  |                    |                  |
| Interest from Saint Gregory's University on note receivable                         | \$ 107,978         | 270,462          |
| Interest paid on revenue bonds  | <u>(129,573)</u>   | <u>(272,726)</u> |
| Net cash used in operating activities   | <u>(21,595)</u>    | <u>(2,264)</u>   |
| <b>Cash flows from capital and related financing activities:</b>                    |                    |                  |
| Payments from Saint Gregory's University on note receivable                         | 3,302,493          | 502,500          |
| Payment of bond principal   | (4,320,000)        | (485,000)        |
| Bond redemption fee paid  | (38,050)           | -                |
| Cash distributed to Saint Gregory's University                                      | <u>(3,809)</u>     | <u>-</u>         |
| Net cash (used in) provided by capital and related financing activities             | <u>(1,059,366)</u> | <u>17,500</u>    |
| <b>Cash flows from investing activities:</b>  |                    |                  |
| Interest received   | 696                | 1,735            |
| Management fee received from Saint Gregory's University                             | -                  | 641              |
| Management and other fees paid  | <u>(4,475)</u>     | <u>(641)</u>     |
| Net cash (used in) provided by investing activities                                 | <u>(3,779)</u>     | <u>1,735</u>     |
| <b>Net (decrease) increase in cash and cash equivalents</b>                         | <b>(1,084,740)</b> | <b>16,971</b>    |
| Cash and cash equivalents at beginning of year                                      | <u>1,084,740</u>   | <u>1,067,769</u> |
| Cash and cash equivalents at end of year  | <u>\$ -</u>        | <u>1,084,740</u> |
| <b>Reconciliation of operating income to net cash used in operating activities:</b> |                    |                  |
| Operating income  | \$ -               | -                |
| Adjustments to reconcile operating income to net cash used in operating activities: |                    |                  |
| Net change in accrued interest payable  | <u>(21,595)</u>    | <u>(2,264)</u>   |
| Net cash used in operating activities   | <u>\$ (21,595)</u> | <u>(2,264)</u>   |

See Independent Auditors' Report.  
See accompanying notes to financial statements.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Saint Gregory's University Authority (the "Authority") is a public trust and an agency of the State of Oklahoma which was created on June 1, 1999, under provisions of Title 60, Oklahoma Statutes 1981, the Oklahoma Trust Act, and other applicable statutes and laws. The Authority was created to promote the development of Saint Gregory's University (the "University"). Pottawatomie County, Oklahoma, is the beneficiary of the Trust and shall receive the residue, if any, of the Trust's estate at its termination.

**Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The statements of net assets and the statements of revenues, expenses, and changes in net assets are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities associated with their activities are reported.

**Basis of Accounting**

The accompanying financial statements are presented on an enterprise fund basis and follow the accrual basis of accounting, whereby revenues are recorded in the period earned and expenses are recorded in the period incurred.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 those estimates.

See Independent Auditors' Report.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

**Concentrations**

Except for interest income received from the investment of the bond proceeds, the Authority relied entirely on the University to meet the semiannual interest and annual principal payments to the bondholders.

**Date of Management's Review of Subsequent Events**

Management has evaluated subsequent events through December 23, 2011, the date which the financial statements were available to be issued.

**(2) REPAYMENT OF DEBT**

During the year ended June 30, 2011, The University Board of Directors notified and requested the Board of Trustees of the Saint Gregory's University Foundation to liquidate an endowment account and make a distribution to the Saint Gregory's Abbey (the "Abbey"). The terms of the endowment agreement provided for the use of the monies as directed by the Abbey. The distribution, along with other assets of the Authority, was used to repay debt of the Authority on December 1, 2010. The repayment of the debt resulted in the Authority's assets being liquidated and the remaining liability for the deferred credit (see Note 5) being satisfied. Although the statement of net assets reflects no assets or liabilities at June 30, 2011, the Authority remains a viable entity as it has no operational expenses and the University has chosen not to terminate the Authority and could utilize the Authority at a future date if it so desires.

**(3) CASH AND CASH EQUIVALENTS**

At June 30, the following cash accounts were held and administered by the Bank of Oklahoma (the "Trustee") for the Authority:

|  | <u>2011</u>  |                   |
|--|--------------|-------------------|
|  | <u>Cost</u>  | <u>Fair Value</u> |
| Bank of Oklahoma collateralized interest-bearing deposit account | \$ -         | -                 |
|  | <u>2010</u>  |                   |
|  | <u>Cost</u>  | <u>Fair Value</u> |
| Bank of Oklahoma collateralized interest-bearing deposit account | \$ 1,084,740 | 1,084,740         |

See Independent Auditors' Report.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(3) CASH AND CASH EQUIVALENTS, CONTINUED**

As of June 30, 2011, all cash accounts had been liquidated to repay outstanding bonds and related expenses. At June 30, 2010, approximately \$750,000 of cash was maintained in the bond reserve fund (see Note 7) and was considered restricted. In addition, cash at June 30, 2010, was also restricted for the following uses:

|                              |    |                |
|------------------------------|----|----------------|
| Payment of bond principal    | \$ | 301,093        |
| Payment of interest on bonds |    | 25,495         |
| Payment of arbitrage rebate  |    | <u>8,152</u>   |
|                              | \$ | <u>334,740</u> |

The cash in the bond reserve fund was in a collateralized interest-bearing deposit account at the Bank of Oklahoma. The account at June 30, 2010, had a variable interest rate (with a yield of .14% as of June 30, 2010) and was collateralized with pledged securities held in safekeeping at the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank of Topeka.

At June 30, 2011 and 2010, the Authority had no cash balances which were not collateralized or insured.

**Statement of Cash Flows**

Significant non-cash transactions for 2011 were as follows:

|   |    |                |
|---|----|----------------|
| Deferred credit offset against note receivable<br>from University | \$ | <u>492,518</u> |
| Reduction in note receivable from University                      | \$ | <u>224,573</u> |

**(4) NOTE RECEIVABLE FROM SAINT GREGORY'S UNIVERSITY**

The balance of the note receivable from the University consisted of the expenditures made by the Authority to the University or to vendors on behalf of the University, less principal payments made by the University. Under the loan agreement between the Authority and the University, the University was responsible for payments to the Authority to cover all of the Authority's required disbursements. During the fiscal year ended June 30, 2011, the University remitted funds to the Authority to fully repay all outstanding bonds at December 1, 2010, which satisfied the balance of the note receivable from the University.

See Independent Auditors' Report.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(4) NOTE RECEIVABLE FROM SAINT GREGORY'S UNIVERSITY, CONTINUED**

The amount needed by the Authority from the University to repay the debt was \$224,573, less than the net balance of the note.

|  |                   |
|--|-------------------|
| Note receivable owed to Authority at<br>June 30, 2011, current and long-term | \$ 4,019,584      |
| Deferred credit  | <u>(492,518)</u>  |
| Net balance owed   | 3,527,066         |
| <br>   |                   |
| Amount paid by University  | <u>3,302,493</u>  |
| <br>   |                   |
| Reduction of note receivable   | <u>\$ 224,573</u> |

**(5) DEFERRED CREDIT**

The deferred credit was the amount by which the University's principal payments under the note agreement (see Note 4) were estimated to exceed the amount needed by the Authority to retire its indebtedness. The amount was determined using the actual disbursements made to the University or on behalf of the University and a comparison to the note agreement when the note agreement was originated. As the debt was repaid on December 1, 2010, the deferred credit balance was applied to the note receivable from the University.

As of June 30, 2010, the credit was estimated as follows:

|   |                   |
|---|-------------------|
| Note receivable from the University               | \$ 4,019,584      |
| Cash and cash equivalents                         | 1,084,740         |
| Accrued interest receivable                       | <u>-</u>          |
| Total available assets                            | <u>5,104,324</u>  |
| <br>  |                   |
| Revenue bonds payable                             | 4,320,000         |
| Accrued interest payable on revenue bonds         | <u>21,595</u>     |
| Amounts to be paid from available assets          | <u>4,341,595</u>  |
| <br>  |                   |
| Excess of available assets over required payments | 762,729           |
| Cumulative earnings                               | <u>(270,211)</u>  |
| <br>  |                   |
| Deferred credit                                   | <u>\$ 492,518</u> |

See Independent Auditors' Report.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**(6) BONDS PAYABLE**

On December 1, 1999, the Authority issued Saint Gregory's University Authority Revenue Bonds, Series 1999, in the total principal amount of \$7,500,000. The proceeds of the bond issue were used to pay outstanding bonds previously issued by the University, to capitalize a debt service reserve fund, to pay the initial issuance costs, and to improve the University's educational facilities. The rates of interest on the bonds were at fixed rates ranging from 5.00% to 6.20%.

The Series 1999 bonds were secured by a pledge of the loan agreement between the Authority and the University. This agreement stipulated that the University pledge all of its current and future operating revenues to the Authority for all future principal, interest, and other payments that the Authority was required to make under the Bond Indenture with the Trustee. In addition, the bonds were guaranteed by Saint Gregory's Abbey (the "Abbey") for up to \$3,000,000 from the assets of the Abbey, plus any monies the Abbey should receive from Saint Gregory's University Endowment Foundation, Inc. (the "Foundation").

The bonds were redeemed and paid off at December 1, 2010. As a result of the early repayment, an early redemption premium of \$38,050 was paid to bondholders.

A summary of changes in the bonds payable for the years ended June 30 is as follows:

| 2011                         |                  |                 |                           |
|------------------------------|------------------|-----------------|---------------------------|
| <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>Ending<br/>Balance</u> |
| \$ 4,320,000                 | -                | (4,320,000)     | -                         |
| 2010                         |                  |                 |                           |
| <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Payments</u> | <u>Ending<br/>Balance</u> |
| \$ 4,805,000                 | -                | (485,000)       | 4,320,000                 |

See Independent Auditors' Report.

**SAINT GREGORY'S UNIVERSITY AUTHORITY  
SHAWNEE, OKLAHOMA**

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

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**(7) BOND RESERVE FUND**

The bonds were repaid and no reserve fund existed at June 30, 2011. At June 30, 2010, \$750,000 of cash and cash equivalents was maintained in the reserve fund and was considered restricted.

A summary of activity in the reserve fund for the year ended June 30, 2010, is as follows:

|   |                   |
|---|-------------------|
| Beginning balance   | \$ 750,000        |
| Transfers to interest fund and rebate fund<br>for appropriate expenditure | (1,226)           |
| Interest income deposited   | <u>1,226</u>      |
| Ending balance  | <u>\$ 750,000</u> |

As an assurance to its bondholders, the Authority was required to maintain a portion of the proceeds it received in the bond issuance in a cash reserve fund with the Trustee. As of June 30, 2010, the balance maintained in the reserve fund was to be the least of the following:

|  | <u>Amount</u>     |
|--|-------------------|
| The maximum debt service (principal and interest payments) coming due in any 1 year over the life of the bonds | <u>\$ 780,570</u> |
| 125% of the average annual debt service  | <u>\$ 894,257</u> |
| 10% of the bond proceeds   | <u>\$ 750,000</u> |

Had the Authority failed to make a required payment, then the Trustee had the right to use cash in the reserve fund to cover the required payment. As of June 30, 2010, the Authority had the required minimum balance in the bond reserve fund.

**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**

Board of Trustees  
Saint Gregory's University Authority  
Shawnee, Oklahoma

We have audited the financial statements of Saint Gregory's University Authority (the "Authority") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 23, 2011. Our report includes an explanatory paragraph noting that management's discussion and analysis was omitted. Our report also includes an explanatory paragraph noting our limited review of the Authority's compliance with certain bond requirements. In addition, our report also contains a paragraph noting the repayment of all debt as of December 1, 2010, and that the Authority has no assets or liabilities at June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a 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 was not designed to identify all deficiencies in internal control over financial reporting 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.

(Continued)

**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, CONTINUED**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 Board of Trustees of the Authority, the management of the Authority, the Bank of Oklahoma, Oklahoma City, Oklahoma, as Trustee, and the State of Oklahoma Office of the Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
December 23, 2011