

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY

**ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Seminole Educational Facilities Authority

We have audited the accompanying financial statements of the business-type activities of the Seminole Educational Facilities Authority, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Seminole Educational Facilities Authority, as of June 30, 2012, and the change in financial position 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 August 23, 2012, 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 considered in assessing the results of our audit.

The Seminole Educational Facilities Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) and the GASB has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Dillon & Associates, P.C.

Midwest City, Oklahoma
August 23, 2012

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets

Cash and cash equivalents	\$ -
Total Current Assets	<u>-</u>

Noncurrent Assets

Restricted cash and cash equivalents	333,168
Fixed assets	2,163,356
Unamortized bond issuance costs	<u>21,403</u>
Total Noncurrent Assets	<u>2,517,927</u>

Total Assets	<u><u>2,517,927</u></u>
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LIABILITIES

Current Liabilities

Accrued interest payable	15,968
Current portion of long-term debt	<u>515,000</u>
Total Current Liabilities	<u>530,968</u>

Long-term Liabilities

Note payable, net of current portion	830,000
Less: Unamortized bond discount	<u>(5,514)</u>
Total Long-term Liabilities	<u>824,486</u>
Total Liabilities	<u>1,355,454</u>

NET ASSETS

Invested in capital assets, net of related debt	861,303
Unrestricted	<u>301,170</u>
Total Net Assets	<u><u>\$ 1,162,473</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, 2012

Revenues	
Rental income	\$ 523,450
Investment income	<u>10,559</u>
Total Revenues	<u>534,009</u>
Expenses	
Interest expense	55,295
Trustee fees	3,315
Amortization of issuance costs	<u>18,345</u>
Total Expenses	<u>76,955</u>
Net income (loss)	457,054
Net Assets - Beginning	<u>705,419</u>
Net Assets - Ending	<u><u>\$ 1,162,473</u></u>

See accompanying notes to the basic financial statements.

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows From Operating Activities:	
Operating Income (Loss)	\$ 457,054
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	99,173
Increase (decrease) in accrued liabilities	(5,327)
Total adjustments	116,918
Net Cash Provided (Used) in Operating Activities	573,972
Cash Flows From Non-Capital Financing Activities :	
None	-
Net Cash Provided (Used) in Non-Capital Financing Activities :	
None	-
Cash Flows From Capital and Related Financing Activities :	
Payment on revenue bonds	(470,000)
Acquisition and construction of capital assets	(103,972)
Net Cash Provided (Used) in Capital and Related Financing Activities	(573,972)
Cash Flows From Investing Activities :	
None	-
Net Cash Provided (Used) in Investing Activities	-
Net Increase (Decrease) in Cash and cash equivalents	-
Cash and cash equivalents - Beginning of Year	-
Cash and cash equivalents - End of Year	-
<u>Supplemental Disclosure</u>	
Cash paid for interest	\$ 55,895

See accompanying notes to the basic financial statements.

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

(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, 2012, 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, 2012 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 assets, 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, 2012

(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, 2012:

Project Construction Account	\$ 53,401
Debt Service Account	1,992
Reserve Account	<u>277,775</u>
Total	<u>\$ 333,168</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, 2012

(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 Assets. 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 assets 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 assets - Consists of net assets 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 assets - All other net assets 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, 2012, the construction of the Facility was in progress.

(3) Long-Term Debt -

As of June 30, 2012, 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%.	\$ 1,345,000
Less : Unamortized bond discount	(5,514)
Net Revenue Bonds Payable	<u>\$ 1,339,486</u>

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

(3) Long-Term Debt - Continued

Changes in Long-Term Debt

The following is a summary of debt transactions for the year ended June 30, 2012:

	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	\$ 1,815,000	-	470,000	1,345,000	515,000
	<u>\$ 1,815,000</u>	<u>-</u>	<u>470,000</u>	<u>1,345,000</u>	<u>515,000</u>

Annual Debt Service Requirements

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

Year Ending	
December 31,	
2013	\$ 553,892
2014	844,940
Total principal and interest	<u>1,398,832</u>
Less: Interest	<u>53,832</u>
Principal outstanding at June 30, 2012	<u>\$ 1,345,000</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, 2012 are as follows:

Year Ended June 30,	Rent
2013 \$	<u>4,000</u>
2014	<u>2,000</u>
\$	<u>6,000</u>

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

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
Notes to Basic Financial Statements
June 30, 2012

(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 August 23, 2012, 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*

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, 2012, and have issued our report thereon dated August 23, 2012. 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.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Seminole Educational Facilities Authority, ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Seminole Educational Facilities Authority's financial statements that is more than inconsequential will not be prevented or detected by the Seminole Educational Facilities Authority's internal control. We

consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2012-01 to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Seminole Educational Facilities Authority internal control. 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 significant deficiencies or material weaknesses. We believe all of the significant deficiencies described in the accompanying Schedule of Reportable Findings and Responses to be material weaknesses in internal control over financial reporting.

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
August 23, 2012

SEMINOLE EDUCATIONAL FACILITIES AUTHORITY
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012

Finding 2012-01 - 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, 2012, 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, 2012

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 - The Council concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.