

**TAHLEQUAH EDUCATIONAL
FACILITIES AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS AND
AUDITOR'S REPORTS**

FOR THE YEAR ENDED JUNE 30, 2012

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
ANNUAL FINANCIAL STATEMENTS & AUDITOR'S REPORT
June 30, 2012

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TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

This discussion and analysis of the Tahlequah Educational Facilities Authority (Authority) financial statements provides an overview of the Authority's financial activities for the year ended June 30, 2012. Management has prepared the financial statements and related footnote disclosures along with the discussion and analysis.

Financial Highlights

- Net assets of the Authority are (\$13,930,482) due to the issuance of bonded indebtedness in the amount of \$19,850,000, and construction costs in the amount of \$8,083,980.
- The Authority's Liabilities are long term debt in the amount of \$19,850,000.

Using This Annual Report

The Authority's financial statements consist of three statements – a Balance Sheet, a Statement of Revenue, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority.

The Balance Sheet and Statement of Revenue, Expenses, and Changes in Net Assets

Our analysis of the Authority's finances begins on page 4. One of the most important questions asked by the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. The governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets is one indicator of whether its financial health is improving or deteriorating.

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported on the Balance Sheet on page 4. The Authority's net assets in 2012 were \$(13,930,482).

Operating Income and Losses

The first component of the overall change in the Authority's net assets is its operating income (gain). The Authority reported an operating gain in 2012 of \$333,339.

Non-operating Revenue and Expenses

The total non-operating revenue is \$356,604. With the additional revenue, it gives the Authority a total increase of revenues in the amount of \$98,180.

Capital Assets

At the end of 2012, the Authority had no capital assets,

Contacting the Authority's Financial Management

This financial statement is designed to provide management, taxpayers and creditors with a general overview of the Authority's finances. If you have questions about this report or need additional information, contact Tahlequah Educational Facilities Authority, 111 S. Cherokee, Tahlequah, Oklahoma, 74464,

MICHAEL W. GREEN
Certified Public Accountant

827 W Locust
Stilwell, Ok. 74960
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tahlequah Educational Facilities Authority
Tahlequah, Oklahoma

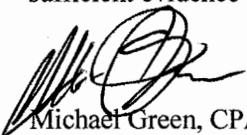
I have audited the accompanying balance sheet of the Tahlequah Educational Facilities Authority, a component unit of the City of Tahlequah as of June 30, 2012, and the related statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Tahlequah Educational Facilities Authority as of June 30, 2012, and the results of its operations, changes in net assets, 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*, I have also issued a report dated November 2, 2012, on my consideration of the Tahlequah Educational Facilities Authority's internal control over financial reporting, and my tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of my 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* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.


Michael Green, CPA
November 2, 2012

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
BALANCE SHEET
June 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$ 25,781	
Federal Treasury Obligation Fund - Bond A	5,150,171	
Federal Treasury Obligation Fund - Bond A	391	
Federal Treasury Obligation Fund - Bond B	347,083	
Current Amount Receivable on Capital Lease Purchase	<u>391,900</u>	
Total Current Assets		\$ 5,915,326

NON CURRENT ASSETS

Non-current Amount Receivable on Capital Lease Purchase	\$ 24,237,150	
Capitalized Bond Issuance Cost	518,625	
Less Accumulated Amortization	<u>(122,453)</u>	
Total Non Current Assets		<u>24,633,322</u>

Total Assets		<u><u>\$ 30,548,648</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current Portion of Deferred Revenue on Capital Lease Purchase	\$ 391,900	
FICA & Medicare Payable	80	
Current Maturities of Long-Term Debt	<u>-</u>	
Total Current Liabilities		\$ 391,980

LONG-TERM DEBT, NET

Non-Current Portion of Deferred Revenue on Capital Lease Purchase	\$ 24,237,150	
Bonds Outstanding-Series A	19,280,000	
Bonds Outstanding-Series B	<u>570,000</u>	
Total Long Term Debt		<u>44,087,150</u>

Total Liabilities		44,479,130
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ -	
Restricted Net Assets	<u>(13,930,482)</u>	
Total Net Assets		<u>(13,930,482)</u>

Total Liabilities and Net Assets		<u><u>\$ 30,548,648</u></u>
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TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Revenues:

Annual Sublease Payment	\$	9,925
Tahlequah Public Schools Rental Payment		3,000
Tahlequah Public Schools Acquisition Payment		372,900
Tahlequah Public Schools Fee Payment		500
Total Operating Income	\$	<u>386,325</u>

Expenditures:

Salaries and Wages	\$	1,292
Professional Fees		3,850
Amortization		43,219
Bank Fees		4,625
Total Operating Expenses	\$	<u>52,986</u>

Operating Income (Loss)	\$	<u>333,339</u>
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Non-Operating Income (Expense):

Dividends	\$	1,013
Government Subsidy Payments		355,591
Tahlequah Public Schools Construction Payments		(8,083,980)
Interest Paid on Outstanding Bonds		(1,036,642)
Annual Sub-Lease Payment to Tahlequah Ed Facil Auth		(9,925)

Total Non-Operating Income (Expense)	\$	<u><u>(8,773,943)</u></u>
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Net Income or (Loss)	\$	(8,440,604)
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Net Assets, Beginning of Year		<u>(5,489,878)</u>
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Net Assets, End of Year	\$	<u><u>(13,930,482)</u></u>
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TAHLEQUAH EDUCATIONAL FACILITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

Cash Flows from Operating Activities	
Cash received from Customers	\$ 386,325
Cash paid to Employees	(1,292)
Cash paid to Suppliers	(8,475)
Net Cash Provided by Operations	<u>\$ 376,558</u>
Cash Flows from Financing Activities	
Cash Provided by Bond Issue Funds	\$ 8,402,168
Payments by Tahlequah Public Schools for Construction	(8,083,980)
Payment of Administrative Fees to TEFA	(9,925)
Payment of Interest on Long-Term Debt	(1,036,642)
Net Cash Used in Capital and Related Financing Activities	<u>\$ (728,379)</u>
Cash Flows from Non Financing Activities	
Bond Subsidy Payments	\$ 355,591
Dividends on Investments of Bond Funds	1,013
	<u>\$ 356,604</u>
Net Increase in Cash and Cash Equivalents	4,783
Beginning Cash and Cash Equivalents	20,998
Ending Cash and Cash Equivalents	<u>\$ 25,781</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities	
Operating Income	\$ 333,339
Adjustment to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Amortization	43,219
Increase in Accounts Payable	-
Decrease in Accounts Receivable	-
Net Cash Provided by Operating Activities	<u>\$ 376,558</u>

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies

Report Entity

The Tahlequah Educational Facilities Authority (the Authority) is a public trust created on September 21, 2009, 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 laws and statutes of the State of Oklahoma. The City of Tahlequah, Oklahoma, is the beneficiary, and will receive all residual trust funds and assets upon termination of the trust.

The general purposes of this Trust are to assist the Beneficiary, the State of Oklahoma, its governmental agencies, and the private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accordance with the needs and benefits of the Beneficiary in order to:

- Lessen the burdens on government and to stimulate educational growth and development
- To promote the educational well being of the Beneficiary by improving available resources, increasing meaningful job opportunities, promoting entrepreneurship and capital investment, while maintaining the Beneficiary's quality of life.
- Inventory the educational services, facilities and resources of the entire Beneficiary
- Promote, stimulate, encourage and finance the growth and development of education of the Beneficiary as a whole, all in order to achieve maximum utilization of the Beneficiary's human, economic, recreational, natural resources and tourist attractions
- Foster and promote the Beneficiary and to otherwise promote its general economic welfare and prosperity, and to finance any and all programs, facilities or resources promoting or intending to promote any of the foregoing.

The Authority is considered a component unit of the City of Tahlequah, and its financial information is included in the General Purpose Financial Statements of the City of Tahlequah each year.

The Trustees of this Trust shall be the Mayor and the four members of the City Council of the Beneficiary, such City Council being the governing Board of the City of Tahlequah and hereafter called "Governing Board"

The Mayor of the City shall serve as the Chairman of the Trustees and shall preside at all meetings.

Proprietary Fund Accounting

The Authority uses the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. The governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Summary of Significant Accounting Policies (continued)

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 those estimates.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets, business interruption; errors and omissions, employee injuries and illnesses, and natural disasters. To cover exposure of these risks, the Authority is listed as an Additional Named Plan Member on the City of Tahlequah's municipal liability protection plan. The Authority does not carry insurance separately under its own name. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Cash Equivalents

The Authority considers all liquid investments which have original maturities of three months or less to be cash equivalents.

Property and Equipment

The Authority has no property or equipment as of June 30, 2012.

Income Taxes

The Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma and is exempt from state income taxes under a similar provision of Oklahoma State Statutes.

Budgets

Under Title 60, Section 176(g) Public Trusts created pursuant to this section shall file annually, with their respective Beneficiaries copies of financial documents and reports sufficient to demonstrate the fiscal activity of such trust, including, but not limited to, budgets, financial reports, bond indentures and audits. Amendments to the adopted budget shall be approved by the trustees of the public trust and recorded as such in the official's minutes of such trust.

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 2: Cash and Investments

The Authority operated one checking account at BancFirst, Tahlequah, Oklahoma. The checking account pays no interest. As of June 30, 2012 the bank balance was \$25,875.25. There were outstanding checks of \$94.35.

Bond Funds are held in accounts at BancFirst, Oklahoma City, Oklahoma. The following accounts were established according to the Bond Indenture:

- Improvement Fund - Account Number 873343040 with a balance on June 30, 2012 of \$5,150,170.48 in Federated Treasury Obligations Ser Class #398
- Debt Service Fund (Series A) – Account Number 873343008 with a balance on June 30, 2012 of \$391.94 in Federated Treasury Obligations Ser Class #398
- Debt Service Fund (Series B) – Account Number 873343016 with a balance on June 30, 2012 of \$347,083.38 in Federated Treasury Obligations Ser Class #398

Deposits

The Authority's cash deposits as of June 30, 2012, are categorized to give an indication of the level of risk assumed by the Authority at year end as follows:

Deposit Categories of Credit Risk

- A. Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.
- B. Collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name.
- C. Uncollateralized

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Market Value</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>			
BancFirst, Tahlequah	\$25,781	\$ 0	\$ 0	\$ 25,781	\$ 25,781	\$ 25,781
BancFirst, OKC	\$ 0	\$ 5,497,645	\$ 0	\$5,497,645	\$5,497,645	\$5,497,645
TOTAL	<u>\$25,781</u>	<u>\$ 5,497,645</u>	<u>\$ 0</u>	<u>\$5,523,426</u>	<u>\$5,523,426</u>	<u>\$5,523,426</u>

Note 3: Amounts Receivable and Deferred Revenue on Capital Lease Purchase

This is the remaining amount unpaid of the capital lease purchase by Tahlequah Schools.

Note 4: Fixed Assets

Schedule of Changes in Fixed Asset Accounts

There are no fixed assets as of June 30, 2012.

Note 5: Long-Term Debt

Tahlequah Educational Facility Authority (The Authority)
Educational Facilities Lease Revenue Bonds
(Tahlequah Public Schools Project)

Build America Bonds	Direct Payment Series 2009A (Federally Taxable)	\$19,280,000
Non Build America Bonds (Federally Taxable)	Series 2009B	\$ 570,000

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The bonds are being issued pursuant to an indenture dated as of September 1, 2009 between the Authority and the Trustee (BancFirst, OKC), for the purpose of providing funds to Independent School District No. 35 (the District), Cherokee County, Oklahoma for the purpose of paying the costs of equipping, repairing and remodeling of school buildings, acquiring school furniture, fixtures and equipment and acquiring and improving school sites; funding capitalized interest; and paying costs of issuance

The bonds shall not constitute obligations, legal or moral, or debts, general or special, of the State of Oklahoma or any political subdivision thereof, of the District, or personal obligations of the Trustees of the Authority or general obligations of the Authority, but shall be a limited obligation of the Authority secured to the extent provided in the Indenture by the assignment of the Trust Estate to the Trustee. Neither the faith and credit nor the taxing power of the State of Oklahoma, or of any political subdivision thereof, or of the District shall be pledged to the payment of the principal or interest on the bonds. The Authority has no taxing power.

Current maturity of principal and interest for the next five years, under the indebtedness listed above, is as follows:

June 30,	<u>Principal</u>	<u>Interest</u>
2013	\$	\$ 1,036,641.66
2014	\$ 1,315,000.00	\$ 1,013,545.71
2015	\$ 1,400,000.00	\$ 962,078.76
2016	\$ 1,515,000.00	\$ 899,976.28
2017	\$ 1,620,000.00	\$ 827,348.60

Projected Revenues, Debt Service & Cash Balance

<u>DATE</u>	<u>REVENUE</u>	<u>CIF</u>	<u>TOTAL REVENUES</u>	<u>LESS: DEBT SERVICE</u>	<u>LESS ANNUAL FEES</u>	<u>BALANCE</u>
09/01/10	\$625,136	\$702,901	\$1,328,037	\$1,022,616	\$28,520	\$276,903
09/01/11	740,333	735,384	1,475,718	1,070,180	29,638	654,190
09/01/12	759,333	352,873	1,112,207	1,390,180	29,638	349,857
09/01/13	2,361,983	0	2,361,983	2,349,140	29,238	334,345
09/01/14	2,410,266	0	2,410,266	2,399,475	27,625	318,366
09/01/15	2,453,454	0	2,453,454	2,454,010	25,888	292,747
09/01/16	2,493,310	0	2,493,310	2,494,028	24,006	268,775
09/01/17	2,529,397	0	2,529,397	2,538,278	21,988	238,605
09/01/18	2,567,029	0	2,567,029	2,582,798	19,813	203,644
09/01/19	2,600,892	0	2,600,892	2,621,548	17,469	166,047
09/01/20	2,631,050	0	2,631,050	2,659,715	14,950	122,865
09/01/21	2,662,109	0	2,662,109	2,696,310	12,244	76,732
09/01/22	4,039,697	<u>0</u>	<u>4,039,697</u>	<u>4,104,135</u>	<u>4,838</u>	<u>7,652</u>
Total	\$28,873,989	\$1,791,158	\$30,665,147	\$30,382,411	\$285,852	

Revenue includes regular Lease Rental Payments, Lease Purchase Acquisition Payments, and Federal Interest Subsidy payments on the Series 2009A Bonds

CIF includes interest earnings on the Capitalized Interest deposited to the Debt Service Fund.

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Lease of Real Property: Term

- (a) **Term.** Sublessor, in consideration of the rents, covenants, agreements, and conditions herein set forth that Sublessee hereby agrees shall be paid, kept and performed, does hereby lease unto Sublessee, and Sublessee does hereby accept from Sublessor, the Real Property, together with all existing improvements, if any, and the Improvements now or hereafter located thereon and the appurtenances thereto and all other Improvements hereunder. The term of this Sublease shall commence on the Commencement Date and shall expire on June 30, of each year, unless extended for additional one (1) year terms (the "Annual Term(s)") or earlier terminated as herein provided (the "Term"). So long as Sublessee is not in default
- (b) under the terms of this Sublease as of the end of any Term, Sublessee shall have the right and option to extend the terms of the Sublease on the same terms and conditions for thirteen (13) successive Annual Terms each commencing on July 1st and expiring by June 30th, by affirmative action and ratification of the Board of Education of Sublessee which shall take place no later than thirty (30) days after the expiration of the current Annual Term and by providing written notice to Sublessor and Trustee no later than thirty (30) days hereto.
- (c) **Termination.** Anything contained herein to the contrary notwithstanding, this Sublease shall terminate upon the occurrence of the first of the following events:
- (i) Sublessee's payment of all amounts required to be paid hereunder or the issuers payment in full of the Bonds either by their terms or by earlier defeasance or redemption;
 - (ii) The termination of this Sublease by Sublessor on the occurrence of an Event of Default as provided in Section 17;
 - (iii) The termination or expiration of the Ground Lease; or
 - (iv) The failure of Sublessee to extend the Term of this Sublease as provided in Section 2(a).

Rent; Lease Purchase Acquisition Payments.

- (a) **Rent** Sublessee shall pay from its general fund or building fund or other legally available monies to the Sublessor (or to the Trustee on behalf of the Sublessor and for benefit of the Sublessor at the written direction of the Sublessor or the Trustee), as consideration for the sublease of Premises, semi-annual rental payments in accordance with the "Schedule of Semi-Annual Rent Payments" attached hereto as Exhibit "B" and incorporated herein for all purposes (the "Rent"). Sublessee shall pay all Rent on or before the date the same become due and payable in accordance with the schedule of payments.
- (b) **Additional Rent.** In addition to the payment of Rent in accordance with the Schedule of Payments, sub lessee shall pay to the Sublessor (or to the Trustee on behalf of the Sublessor and for the benefit of the Sublessor at the written direction of the Sublessee or the Trustee), for the following (the "Additional Rent") within thirty (30) days of receipt of written itemized invoices for the same from Sublessor or Trustee on behalf of Sublessor:
- (i) Any sums in excess of the Rent for the use of the Improvements necessary for the Sublessor to punctually pay all its obligations in accordance with the terms of the Bond Documents;
 - (ii) Any sums which the Sublessor shall be obligated to pay pursuant to the terms of the Bond Documents by reason of any default or delay in payment of sums due thereunder, but only if such delay or default results from the default or breach by Sublessee of the terms, conditions and covenants of this Sublease;

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

- (iii) Any sums expended by the Sublessor or Trustee to insure the Premises on Sublessee's failure to maintain insurance in accordance with this Sublease or to otherwise cure any defaults by Sublessee under the Sublease; and
- (iv) The sum of 1/20 of 1% of the amount of the outstanding principal on the Bonds as of each annual anniversary date of this Sublease to defray the administrative costs, and additionally the sum of any pro rata audit costs of Sublessor attributable to the project, and in additions, the sum of any rebate calculation, rebate determination or rebate payment costs or opinions attributable to the project, which payments may be made from interest income derived from accounts or funds created pursuant to the Indenture or from other funds of the Sublessee.

(c) Lease Purchase Acquisition Payments. Sublessee shall pay from its bond fund or other legally available funds to Sublessor the Lease Purchase Acquisition Payments representing the Purchase Price (the "Lease Purchase Acquisition Payments") in accordance with the "Schedule of Lease Purchase Acquisition Payments for Improvements" . Prior to Sublessee's payment of the Lease Purchase Acquisition Payments for Improvements, legal title to all Improvements shall be vested in Sublessor. The Improvements are and shall at all time be and remain personal property notwithstanding that the Improvements or any part thereof may be or hereafter become in any manner affixed or attached to or embedded in or permanently rested upon real property or any other building thereon or attached in any manner to what is permanent by means of cement, plaster, nails, bolts, screws, or otherwise. Upon Sublessee's payment of the Lease Purchase Acquisition Payments, legal title to the Improvements corresponding to a Lease Purchase Acquisition Payment as described on the Schedule of Lease Purchase Acquisition Payments for Improvements shall automatically vest in Sublessee free of the Security Interests, but subject to the remaining Permitted Encumbrances. To the extent that legal title to the Improvements not does automatically vest in the Sublessee upon payment of the Lease Purchase Acquisition Payments, within a reasonable period of time after the payment of the Lease Purchase Acquisition Payments by Sublessee, Sublessor agrees to execute and deliver to the Sublessee a deed or bill of sale, as appropriate, to convey legal title to the Improvements to the Sublessee. Sublessor further agrees to obtain and deliver to Sublessee within a reasonable period of time after the payment of the Lease Purchase Acquisition Payments by Sublessee a release(s) of the Security Interests in the Improvements as appropriate.

An account called *Deferred Revenue* is set up to account for the portion of the Capital Lease Purchase that is unpaid. The Lease Purchase Revenue is not shown as income until it is received since the purchaser has the right to terminate the lease purchase before completion of the purchase.

TAHLEQUAH EDUCATIONAL FACILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 6: Other Schedules and Documents

All schedules and documents pertaining to the Tahlequah Educational Facilities Authority Educational Facilities Lease Revenue Bonds may be found in the office of the Authority located at 111 South Cherokee, Tahlequah, Oklahoma.

Note 7: Concentration of Risk

The Authority has no formal source of income. The Authority will receive annually a sublease payment from Tahlequah Public Schools which is 1/20 of 1% of the outstanding principal on the Bonds on each anniversary date of the sublease. This year's sublease was \$9,925.00.

Note 8: Employee Benefits

The Authority has one employee, a bookkeeper, who is also employed by the City of Tahlequah, and is paid a minimum amount to perform the Authority's record keeping. As this employee is covered by the City's health, retirement, and worker's compensations plans, these benefits are not currently addressed by the Authority. FICA and Medicare withholding is matched by the Authority.

Note 9: Commitments and Contingencies

The Authority has sufficient insurance coverage and/or tort immunity in effect to protect the Authority from any material loss or liability due to pending claims or litigation. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts if any, to be immaterial.

Note 10: Subsequent Events

Subsequent events have been evaluated through November 2, 2012, which is the date the financial statements were available to be issued.

MICHAEL W. GREEN
Certified Public Accountant

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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*

Board of Trustees
Tahlequah Industrial Authority
Tahlequah, Oklahoma

I have audited the balance sheet of the Tahlequah Industrial Authority, a component unit of the City of Tahlequah, as of June 30, 2012, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended, and have issued my report thereon dated November 2, 2012. I conducted the audit in accordance with 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 my audit, I considered the Tahlequah Industrial Authority internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Tahlequah Industrial 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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Tahlequah Industrial Authority financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Tahlequah Industrial Authority, board of trustees, management, and the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.


Michael Green, CPA
November 2, 2012