

**AUDIT REPORT
BROKEN BOW SCHOOL DISTRICT
PUBLIC TRUST
BROKEN BOW, OKLAHOMA
FOR YEAR ENDED JUNE 30, 2015**



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

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JUNE 30, 2015**

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**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
BOARD OF TRUSTEES
JUNE 30, 2015**

BOARD OF DIRECTORS

President

Mike Newman

Vice-President

Bobby Blanque

Clerk

Scott Rickey

Member

Ralph Piper

Member

Bobby Green

Treasurer

Sarah Prater, CPA



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Broken Bow School District Public Trust.
Broken Bow, OK 74728

We have audited the accompanying financial statements of Broken Bow School District Public Trust. (a public trust), which comprise the statement of financial position as of June 30, 2015 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accrual basis of accounting as described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 financial position of the Broken Bow School District Public Trust, as of June 30, 2015 and the changes in its net assets and cash flows 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 a report dated January 18, 2016, on our consideration of the Trust'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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Trust's internal control over financial reporting and compliance.

Jenkins & Kemper, LPA's P.C.

Jenkins & Kemper
Certified Public Accountants

January 22, 2016



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

**INDEPENDENT AUDITOR'S 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
Broken Bow School District Public Trust
Broken Bow, OK 74728

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 Broken Bow School District Public Trust (a public trust), which comprise the statement of financial positions as of June 30, 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 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. A *significant deficiency* is a deficiency, or a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on 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.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

January 22, 2016

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2015**

There were no findings.

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
STATEMENT OF NET ASSETS
FOR YEAR ENDED JUNE 30, 2015**

	<u>June 30,</u> <u>2015</u>
<u>ASSETS</u>	
Current assets	
Cash in bank	\$ 14,037
Investments	41,684
Total current assets	<u>55,721</u>
Non-current assets	
Restricted assets-investments	58,920
School buildings	1,645,049
Sportsplex building	2,058,658
Paving	11,894
Equipment - sportsplex	3,069
Land	80,000
Less: accumulated depreciation	<u>(2,588,376)</u>
Total noncurrent assets	<u>1,269,214</u>
Total Assets	<u>1,324,935</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Current maturities of long-term debt	48,990
Accrued interest	754
Total current liabilities	<u>49,744</u>
Noncurrent liabilities:	
Long-term debt payable (USDA)	<u>171,304</u>
Total noncurrent liabilities	<u>171,304</u>
Total Liabilities	<u>221,048</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	990,000
Restricted for note indenture	58,920
Unrestricted	<u>54,967</u>
Total Net Assets	<u><u>\$ 1,103,887</u></u>

The accompanying notes are an integral part of the financial statements

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR YEAR ENDED JUNE 30, 2015**

	June 30,
	2015
Operating Revenues:	
Lease of school buildings	\$ 64,320
Total operating revenues	64,320
Operating Expenses:	
Insurance	350
Professional fees	3,861
Depreciation	92,592
Total operating expenses	96,803
Operating Income (Loss)	(32,483)
Non-Operating Revenues (Expenses):	
Interest income	292
Interest paid on long-term debt	(12,130)
Total non-operating revenues (expenses)	(11,838)
Changes in Net Assets	(44,321)
Total Net Assets, beginning of period	1,148,208
Total Net Assets, end of period	\$ 1,103,887

The accompanying notes are an integral part of the financial statement

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
STATEMENT OF CASH FLOWS
FOR YEAR ENDED JUNE 30, 2015**

	June 30,
	2015
Cash Flows from Operating Activities:	
Cash received from leasing buildings	\$ 64,320
Cash paid for operating expenses	(4,211)
Net cash flows from operating activities	60,109
 Cash Flows from Investing Activities:	
Interest earnings	292
Net cash flows from investing activities	292
 Cash Flows from Financing Activities:	
Interest expenses on debt	(12,592)
Principal payments on long-term debt	(46,328)
Net cash flows from financing activities	(58,920)
Net increase (decrease) in cash and cash equivalents	1,481
Cash and cash equivalents, beginning of period	113,160
Cash and cash equivalents, end of period	114,641
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	(32,483)
Add depreciation expense	92,592
Net cash flows from operating activities	\$ 60,109

The accompanying notes are an integral part of the financial statements

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015**

Note 1 - Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Fixed Assets

Fixed assets are valued at cost and depreciation is computed using the straight-line method over a period of forty (40) years.

Long-Term Debt

Long-term debt is summarized as follows:

	<u>Date Of Issue</u>	<u>Interest Rate Per Annum</u>	<u>Total Original Amount</u>
Rural Economic & Community Development Note No. 97-01	3-05-80	5%	<u>\$1,000,000</u>
		<u>JUNE 30,</u> <u>2015</u>	
R.E.& C.D. Note No. 97-01		\$ 220,294	
Less current maturities		<u>(48,990)</u>	
Total long-term debt			<u>\$ 171,304</u>

Rural Economic & Community Development Note

This note is payable solely from the revenues and property described in the mortgage securing it. Principal and interest is payable to the order of the United States of America, acting through the Rural Economic & Community Development, United States Department of Agriculture, at its office in Wilburton, Oklahoma. The final installment shall be due and payable in 40 years, if not sooner paid. Prepayments may be made at any time at the option of the borrower. Interest at 5% shall be paid on the unpaid principal balance.

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2015**

Note 1 - Significant Accounting Policies - contd.

Long-Term Debt - contd.

The principal payments for the next five years are detailed as follows:

	<u>R.E.& C.D.</u>
2015-16	48,990
2016-17	51,528
2017-18	54,164
2018-19	56,935
Thereafter	8,677
Total	\$ 220,294

Collateral Pledged

It appears that all funds were adequately insured by FDIC as of June 30, 2014.

Insurance

It appears that the Trust had current coverage for all major perils.

Restricted Assets

Under the terms of the loan agreement with Rural Economic & Community Development, the Broken Bow School District Public Trust must maintain certain "funds" in restricted accounts. These are not funds in the sense of fiscal and accounting entities with self-balancing sets of accounts, they are merely mandatory segregation of assets. The loan agreement requires that the Trust set aside 10% of the scheduled loan payment until it is able to maintain a balance equivalent to one year of payments.

Note 2 - Lease Agreement

An Agreement of Lease was entered into on the 27th day of November, 1976, between the Broken Bow School District Public Trust, a public trust authority, by and through its Trustees, as Lessor, and Independent School District No. 74 of McCurtain County, Oklahoma, a public corporation, as Lessee. The terms of the lease include all fixed assets of the authority, or, as referred to in lease agreement "the facilities". Reference is made to the "Transcript of Proceedings" for a complete description of this agreement. However, certain provisions of the Lease Agreement are described as follows:

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 2 - Lease Agreement - contd.

- A. The Trust is holding title to said facilities (the "Leased Property"), in trust for the Broken Bow School District Public Trust, the District is the sole recipient of any distributions of money or property made by the Trust, and the Trust has agreed to convey to the District, free and discharged of said Trust, the title so held to the Lease Property at the earliest date that the Trust practicably can procure a release of the mortgage thereon which the Trust shall grant as security for the aforesaid indebtedness.
- B. During each year of this Lease Agreement, the District shall pay to the Trust, as consideration for the demise of the Leased Property to the District during that year, the following:
1. On or before the date each shall become due, the amounts necessary to punctually pay the maturing principal of and interest on the debt; plus
 2. On or before the date each shall become due, the amounts required to be set aside or accumulated by the Trust in accounts or funds in relation to the debt; plus
 3. Any amounts, fees and expenses which the Trust shall be obligated to pay under the terms of any and all instruments evidencing and securing the debt, by reason of any default or delay in payment of the sums due there under, but only if such default or delay shall have resulted from the District's default or breach of covenant under this Lease Agreement; plus
 4. The amounts required to be expended by the Trust for insuring the Leased Property against loss, and for the furnishing of periodic audits and reports required by the instruments evidencing and securing the debt or by Oklahoma Law.

Note 3 - Trust Indenture

Purposes of Trust

The purposes of this trust are:

- A. To promote the general welfare of the Beneficiary by acquiring property, real, personal and mixed, for the use by the Beneficiary in the performance of its public educational functions under the Constitution and Laws of the State of Oklahoma.

BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

Note 3 - Trust Indenture – contd.

- B. In carrying out said public purposes, to issue bonds, notes and other obligations as the Trustees may deem desirable and to secure the payment of such bonds, notes or other obligations by the pledge of all or any part of the rents and income of the Trust and its property.
- C. To hold, maintain and administer any leasehold rights in and to properties of the Beneficiary demised to the Trustees, and to comply with the terms and conditions of any lease providing said rights;
- D. To acquire, re-acquire, receive, construct, reconstruct, raze, level, grade, beautify, extend, lease, purchase, use, loan, borrow, install, equip, maintain, operate, renovate, stabilize, refurbish, enlarge, remodel, relocate, convey, re-convey, sell, at public or private sale, pledge, encumber, alienate, transfer, exchange and/or resell, any property, real, personal or mixed, improvements, buildings, equipment, chattels, furnishings, fixtures, trade fixtures and any and all other facilities and/or property of whatever nature, and including but not limited to, water, sanitary and storm sewer lines, mains and laterals and facilities, telephone, gas and electrical lines and conduits, and including any and all rights to or therein, for use by the Beneficiary, or for the use of corporations, individuals, partnerships, associations or proprietary companies for any or for the purpose of executing and/or fulfilling the Trust purposes as set further in this instrument, and to plan, establish, develop, construct, enlarge, improve, extend, maintain, equip, operate, lease, furnish, provide, supply, regulate, hold, store and administer property, buildings, improvements and facilities of every nature, either within or without the territorial boundaries of the Beneficiary, which may be useful in pursuing, promoting, executing and/or fulfilling the Trust purposes as set forth in this instrument.
- E. To lease, rent, furnish or provide such property, buildings, improvements and facilities for use by the Beneficiary or for the use of corporations, individuals, partnerships, associations or proprietary companies, upon such terms as the trustees may deem suitable; and to relinquish, rent, dispose of or otherwise make provision for properties owned or controlled by the Trust but no longer needed for Trust purposes.
- F. To enter into contracts with the Beneficiary and with other parties to carry out the purposes of this Trust.

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 3 - Trust Indenture – contd.

- G. To provide funds for the cost of financing, refinancing, advance refinancing, acquiring, constructing, purchasing, equipping, maintaining, leasing, repairing, improving, extending, enlarging, remodeling, holding, storing, operating, providing and administering any and all of the aforesaid indebtedness and obligations and property, improvements, services, utilities, building, facilities and all property (real, personal or mixed), needful for executing and fulfilling the Trust purposes as set out in this Indenture and all other charges, costs and expenses necessarily incurred in connection therewith and in so doing to incur indebtedness, either unsecured by all or any part of the Trust Estate and its revenues.
- H. To expend all funds coming into the hands of the Trustees as revenue or otherwise for the payment of any indebtedness incurred by the Trustees for purposes specified herein, and in the payment of the aforesaid costs and expenses and in payment of any other obligation properly chargeable against the Trust or to distribute the residue and remainder of such funds to the Beneficiary as hereinafter set forth, which said funds, together with all Trust property, assets, profits and net revenues are irrevocably dedicated to the Beneficiary.

The Trust Estate

- A. The funds and property presently in the hands of the Trustees, including the consideration, as hereinabove recited.
- B. Any and all leasehold rights, remised to the Trust for the purposes of this Trust, including such as may be remised to the Trust by the Beneficiary as authorized and empowered by law.
- C. Any and all improvements that may be constructed by, or in behalf of, the Trustees upon any property owned by or leased to the Trustees.
- D. Any and all improvements that may be constructed by, or in behalf of, the Beneficiary upon any property owned by the Beneficiary and leased to the Trustees.
- E. Any and all money, property (real, personal or mixed), rights, chooses in action, contracts, leases, privileges, immunities, licenses, franchises, benefits and all other things of value coming into the possession of the Trustees, pursuant to the provisions of this Indenture.
- F. Cash in the sum of \$10.00 paid to the Trustees, receipt of which is hereby acknowledged by the Trustees.

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 3 - Trust Indenture - contd.

Beneficiary of Trust

A. The Beneficiary of this Trust shall be

INDEPENDENT SCHOOL DISTRICT NUMBER SEVENTY-FOUR
OF MCCURTAIN COUNTY, OKLAHOMA,

under and pursuant to Title 60, Oklahoma Statutes, Section 176, et seq., and other statutes of the State of Oklahoma, presently in force and effect.

- B. Trustor agrees that this Indenture may be altered, amended, revised or modified with the express written consent of two-thirds of the Trustees and the Beneficiary, which said written consents shall be evidenced by endorsement upon any such instrument of alteration, amendment, revision or modification shall take effect in such way as to impair the rights of the holder of any bond or other evidence of indebtedness of the Trust or party to whom the Trust is indebted in any way under written obligations of indebtedness.
- C. The Beneficiary shall have no legal title, claim or right to the Trust, its income, or any part thereof, except as set forth hereinafter in this Trust authority, power or rights, whatsoever, to do or transact any business for, nor in behalf of, or binding upon the Trustees or upon the Trust, nor the right to control or direct the actions of the Trustees. The Beneficiary of this Trust, shall be entitled solely to the benefit of this Trust as administered by the Trustees hereunder, and at the termination of the Trust as herein provided and then only shall the Beneficiary receive the residue of the Trust.
- D. The Trustees, after fulfilling the purposes of this Trust and after paying all obligations of the Trust and Trustees, and interest thereon and all the costs and expenses incident to the management, operation, maintenance and conservation of this Trust, shall then distribute the then remaining property, real, personal or mixed, to the Beneficiary.

Termination of Trust

This trust shall terminate:

- A. When the purposes set out in Article III of this Indenture shall have been fully executed; or
- B. In the manner provided by Title 60, Oklahoma Statutes, 1971, Section 180.

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

Note 3 - Trust Indenture - contd.

PROVIDED, however, that this trust shall not be terminated by voluntary action, if there be outstanding indebtedness or fixed term obligations of the Trustees, unless all owners of such indebtedness or obligations shall have consented in writing to such termination.

Upon the termination of the Trust, the Trustees shall proceed to wind up the affairs of the Trust, and after payment of all debts and obligations out of the monies and properties of the Trust, to the extent thereof, shall distribute the residue of all monies and properties of the Trust to the Beneficiary in the manner provided in Article VIII, paragraph C of this Indenture. Upon final distribution, the powers, duties and authority of the Trustees hereunder shall cease.

Debt Service Account

There shall be transferred each month from the revenue fund account, before any other expenditures or transfers there from, and credited to the debt service account, for payment of the monthly installment, at least 1/12 (or such larger amount as is necessary) of the annual installment next due. If the Authority for any reason shall fail to make such required transfers, then an amount equal to the deficiency shall be set apart and credited to the debt service account out of any available revenues in the ensuing month or months, which amount shall be in addition to the regular credits required during such succeeding month or months. This account had a zero balance at June 30, 2015. The 3-5-80 promissory note for \$1,000,000, note No. 97-01, requires that monthly transfers of \$4,910 be made to this account for payment of the indentures requirements. Twelve (12) such transfers were made during the year.

Reserve Account

This account is created for the purpose of paying the cost of repairing or replacing any damage to the Facilities which may be caused by any unforeseen catastrophe, making extensions or improvements to the Facilities with the prior written approval of the Government, and, when necessary, for the purposes of making debt service payments on the note, in the event the amount in the Debt Service Account is insufficient to meet such payments. The 3-5-80 promissory note for \$1,000,000 requires that monthly transfers of \$491 be made from the revenue fund to a reserve fund until a balance of \$58,920 is reached. Whenever disbursements are made from the reserve account, credits shall be continued or resumed until there is again accumulated the aforesaid amount, at which time credits may be discontinued. This account had a balance of \$58,920 at June 30, 2015.