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**AUDIT REPORT
BROKEN BOW SCHOOL DISTRICT
PUBLIC TRUST
BROKEN BOW, OKLAHOMA
FOR YEARS ENDED JUNE 30, 2011 AND 2010**

Audited by

**JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK**

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JUNE 30, 2011**

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**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
BOARD OF TRUSTEES
JUNE 30, 2011**

BOARD OF DIRECTORS

President

Mike Newman

Vice-President

Robert N. Green

Clerk

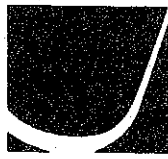
Jerry Whisenhunt

Member

Ralph Piper

Treasurer

L. Dean Bond



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Broken Bow School District Public Trust
Broken Bow, Oklahoma 74728

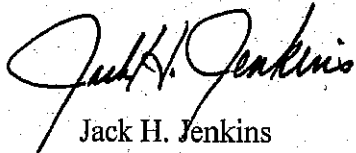
I have audited the accompanying financial statements of the business-type activities of the Broken Bow School District Public Trust, Broken Bow, Oklahoma, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Trust's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Trust's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audits 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 audits 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 audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Broken Bow School District Public Trust, Broken Bow, Oklahoma, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

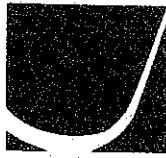
Management has elected to omit the Management Discussion and Analysis, which is considered, required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the Trust's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise of the Trust's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

A handwritten signature in cursive script that reads "Jack H. Jenkins".

Jack H. Jenkins
Certified Public Accountant, P.C.

November 11, 2011



Jack H. Jenkins, CPA *A Professional Corporation*

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Broken Bow School District Public Trust
Broken Bow, Oklahoma 74728

I have audited the financial statements of the Broken Bow School District Public Trust, Broken Bow, Oklahoma as of and for the year ended June 30, 2011, and have issued my report thereon dated November 11, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Trust's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Trust's internal control.

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis mentioned above, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

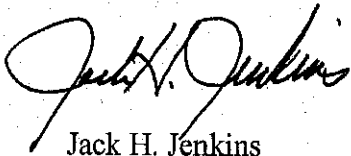
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, I 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 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 solely for the information and use of management, and is not intended to be, and should not be, used by anyone other than these specified parties.



Jack H. Jenkins
Certified Public Accountant, P.C.

November 11, 2011

**BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2011**

There were no findings.

BROKEN BOW SCHOOL DISTRICT PUBLIC TRUST
STATEMENT OF NET ASSETS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

	June 30,	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current assets		
Cash in bank	\$ 51,481	51,607
Investments	992	991
Total current assets	52,473	52,598
Non-current assets		
Restricted Assets-Investments	58,920	58,920
School buildings	1,645,049	1,645,049
Sportsplex building	2,058,658	2,058,657
Paving	11,894	11,894
Equipment - sportsplex	3,069	3,069
Land	80,000	80,000
Less: accumulated depreciation	(2,218,008)	(2,125,417)
Total noncurrent assets	1,639,582	1,732,172
Total Assets	1,692,055	1,784,770
<u>LIABILITIES</u>		
Current Liabilities:		
Current maturities of long-term debt	40,150	38,196
Accrued interest	1,402	1,479
Total current liabilities	41,552	39,675
Noncurrent liabilities:		
Long-term debt payable (USDA)	353,483	393,633
Total noncurrent liabilities	353,483	393,633
Total Liabilities	395,035	433,308
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,187,029	1,241,423
Restricted for note indenture	58,920	58,920
Unrestricted	51,071	51,119
Total Net Assets	\$ 1,297,020	1,351,462

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 YEARS ENDED JUNE 30, 2011 AND 2010**

	June 30,	
	2011	2010
Operating Revenues:		
Lease of school buildings	\$ 62,100	60,000
Total operating revenues	62,100	60,000
Operating Expenses:		
Insurance	350	350
Professional fees	3,350	2,935
Office expense	110	-
Depreciation	92,591	96,046
Total operating expenses	96,401	99,331
Operating Income (Loss)	(34,301)	(39,331)
Non-Operating Revenues (Expenses):		
Interest income	519	717
Interest paid on long-term debt	(20,660)	(22,465)
Capital Loss	-	(106,193)
Total non-operating revenues (expenses)	(20,141)	(127,941)
Changes in Net Assets	(54,442)	(167,272)
Total Net Assets, beginning of period	1,351,462	1,518,734
Total Net Assets, end of period	\$ 1,297,020	1,351,462

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, 2011 AND 2010

	June 30,	
	2011	2010
Cash Flows from Operating Activities:		
Cash received from leasing buildings	\$ 62,100	60,000
Cash paid for operating expenses	(3,810)	(3,285)
Net cash flows from operating activities	58,290	56,715
Cash Flows from Investing Activities:		
Proceeds from sale of assets	-	40,000
Interest earnings	505	717
Net cash flows from investing activities	505	40,717
Cash Flows from Financing Activities:		
Interest expenses on debt	(20,726)	(22,586)
Principal payments on long-term debt	(38,194)	(36,334)
Net cash flows from financing activities	(58,920)	(58,920)
Net increase (decrease) in cash and cash equivalents	(125)	38,512
Cash and cash equivalents, beginning of period	111,518	73,006
Cash and cash equivalents, end of period	111,393	111,518
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	(34,301)	(39,331)
Add depreciation expense	92,591	96,046
Net cash flows from operating activities	\$ 58,290	56,715

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, 2011**

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, 2011</u>	
R.E.& C.D. Note No. 97-01		\$ 393,633	
Less current maturities		<u>(40,150)</u>	
Total long-term debt			<u>\$ 353,483</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, 2011**

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>
2011-12	\$ 40,150
2012-13	42,205
2013-14	44,364
2014-15	46,634
2015-16	49,020
Thereafter	171,260
Total	\$ 393,633

Collateral Pledged

It appears that all funds were adequately insured by FDIC as of June 30, 2011.

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, 2011**

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, 2011**

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, 2011**

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, choses 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, 2011**

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, 2011**

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, 2010. 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 \$59,912 at June 30, 2011.