

Valliant School Authority
Valliant, Oklahoma

Financial Statements and Auditor's Reports

Years Ended June 30, 2013 and 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Valliant School Authority
Valliant, Oklahoma
Board of Directors
June 30, 2013

President

Mike Weeks

Vice President

Tony Tuck

Clerk

Becky Sargent

Members

Galen Hale
Pappy Wortham

Treasurer

Amy Keeton-Smith

Valliant School Authority
Valliant, Oklahoma
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June 30, 2013

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Trustees
Valliant School Authority
Valliant, Oklahoma

We have audited the balance sheets of Valliant School Authority (the Authority), Valliant, Oklahoma, for the years ended June 30, 2013 and 2012, and the related statements of revenue, expenses, and changes in retained earnings and cash flows for the year then ended. 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority for the year ended June 30, 2013 and 2012, and the related statements of revenue, expenses, and changes in retained earnings and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
November 5, 2013



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Valliant School Authority
Valliant, Oklahoma

We have audited the financial statements of Valliant School Authority (the Authority), Valliant, Oklahoma, as of and for the year ended June 30, 2013 and 2012, and have issued our report thereon dated November 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

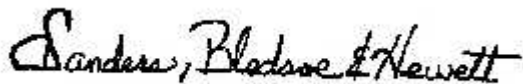
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Board of Trustees
Valliant School Authority

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
November 5, 2013

Valliant School Authority
Valliant, Oklahoma
Disposition of Prior Year's Reportable Conditions
June 30, 2013

There were no prior year reportable conditions.

Valliant School Authority
Valliant, Oklahoma
Schedule of Audit Results
June 30, 2013

Findings – Financial Statement Audit:

None

Valliant School Authority
Valliant, Oklahoma
Balance Sheets - All Proprietary Fund Types
June 30, 2013 and 2012

	June 30,	
<u>ASSETS</u>	2013	2012
Current Assets <i>(Notes A and D)</i>		
Cash in bank	\$ 0	0
Investments	49,532	48,731
Total current assets	49,532	48,731
Restricted Assets <i>(Notes A and D)</i>		
Investments		
Reserve fund	96,636	96,636
Total restricted assets	96,636	96,636
Fixed Assets <i>(Note A)</i>		
School buildings, furniture, fixtures, and equipment	1,640,000	1,640,000
Less: accumulated depreciation	(1,111,764)	(1,064,764)
Total fixed assets	528,236	575,236
Total Assets	\$ 674,404	720,603
<u>LIABILITIES AND RETAINED EARNINGS</u>		
Current Liabilities		
Accrued interest payable	\$ 1,132	2,615
Current maturities of long-term debt	75,402	71,750
Total Current Liabilities	76,534	74,365
Long-term Debt, Less Current Maturities <i>(Note A)</i>		
Rural Development Note	383,535	458,558
Total Long-term Debt, Less Current Maturities	383,535	458,558
Total Liabilities	460,069	532,923
Retained Earnings		
Reserved for promissory note indenture	96,636	96,636
Unreserved	117,699	91,044
Total Retained Earnings	214,335	187,680
Total Liabilities and Retained Earnings	\$ 674,404	720,603

The accompanying notes to the financial statements are an integral part of this statement.

**Valliant School Authority
Valliant, Oklahoma**

Statements of Revenue, Expenses, and Changes in Retained Earnings-
All Proprietary Fund Types
For the Years Ended June 30, 2013 and 2012

	June 30,	
	2013	2012
Revenue from Operations		
Lease of buildings	\$ 96,636	96,636
Expenses from Maintenance and Operations		
Depreciation	47,000	47,000
Net Income (Loss) from Operations	49,636	49,636
Nonoperating Revenue		
Interest on investments	801	1,466
Nonoperating Expense		
Interest on note	(23,782)	(36,334)
Transfer to Valliant Pubic Schools	0	(61,898)
Total nonoperating expense	(23,782)	(98,232)
Net Income (Loss)	26,655	(47,130)
Retained Earnings, Beginning of Year	187,680	234,810
Retained Earnings, End of Year	\$ 214,335	187,680

The accompanying notes to the financial statements are an integral part of this statement.

Valliant School Authority
Valliant, Oklahoma
Statements of Cash Flows - All Proprietary Fund Types
For the Years Ended June 30, 2013 and 2012

	June 30,	
	2013	2012
Cash Flows from Operating Activities		
Cash received from leasing buildings	\$ 96,636	96,636
Cash Flows from Investing Activities		
Interest earnings	801	1,466
Cash Flows from Financing Activities		
Interest expenses on debt	(25,265)	(36,162)
Principal payments on long-term debt	(71,371)	(84,633)
Transfer to Valliant Public Schools	0	(61,898)
Net cash flows from financing activities	(96,636)	(182,693)
 Net Increase (Decrease) in Cash and Cash Equivalents	 801	 (84,591)
 Cash and Cash Equivalents, Beginning of Year	 145,367	 229,958
 Cash and Cash Equivalents, End of Year	 \$ 146,168	 145,367

The accompanying notes to the financial statements are an integral part of this statement.

Valliant School Authority
Valliant, Oklahoma
Notes to the Financial Statements
June 30, 2013

Note A – 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 they are incurred. This policy is in accordance with accounting principles generally accepted in the United States.

Cash and Investments

Valliant School Authority (the Authority) accounts are with the First State Bank in Valliant, Oklahoma, and at June 30, 2013, are detailed as follows:

Savings account - investments - restricted	\$	96,636
Savings account - investments - unrestricted		<u>49,532</u>
Total		<u>\$ 146,168</u>

Statement of Cash Flows

For the purposes of the statement of cash flows, the Authority considers all unrestricted highly liquid investments such as certificates of deposit and savings accounts as cash equivalents.

Fixed Assets

Fixed assets are valued at cost and depreciation is computed over the life of the note, which is 40 years. Depreciation expense represents the amount of principal paid each year on the promissory note. This method is not in accordance with generally accepted accounting principles.

Long-term Debt

	June 30,	
	2013	2012
Rural Development Note No. 96-01, issued August 1, 1979, at 5 percent, payable in monthly principal and interest payments of \$8,053	\$ 458,937	530,308
Less current maturities	<u>(75,402)</u>	<u>(71,750)</u>
Total Long-term Debt	<u>\$ 383,535</u>	<u>458,558</u>

Valliant School Authority
Valliant, Oklahoma
Notes to the Financial Statements
June 30, 2013

This note is payable solely from the revenues and property described in the mortgage securing it. Principal and interest are payable to the order of the United States of America, acting through the office of Rural Development (formerly Farmers Home Administration), United States Department of Agriculture, at its office in Atoka, 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 percent shall be paid on the unpaid principal balance.

Schedule of estimated principal payments due on Note No. 97-01 for the next five years, and in total thereafter, are detailed as follows:

2013 – 14		\$ 75,402
2014 – 15		79,259
2015 – 16		83,314
2016 – 17		87,577
2017 – 18		92,057
Thereafter		<u>41,328</u>
 Total		 <u>\$ 458,937</u>

Note: The exact amount due is unknown because the amount of principal paid each month depends on the day the payment is received by Rural Development.

Note B – Cash and Investments

The Authority’s cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority’s name.

Note C – Lease Agreement

An agreement of lease was entered into on the second day of August 1979 between the Valliant School Authority, a public trust authority by and through its trustees, as lessor, and Valliant Independent School District No. 11 of McCurtain County, Oklahoma, a subdivision of state government, as lessee. The terms of the lease include all fixed assets of the Authority, which are referred to in the lease agreement as 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:

- A. The Authority is holding title to said facilities (the leased property), in trust for the town of Valliant, Oklahoma, a municipal corporation, but under the terms of the Declaration of Trust of the Authority, the District is the sole recipient of any distribution of money or

Valliant School Authority
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Notes to the Financial Statements
June 30, 2013

property made by the Authority, and the Authority has agreed to convey to the District, free and discharged of trust, the title so held to the leased property at the earliest date that the Authority shall grant as security for the aforesaid indebtedness.

- B. To have and to hold the above-described leased property unto the District and its successors for and during the term commencing at 12:01 a.m. on July 1, 1979, and ending at 11:59 p.m. on June 30, 2019. The District hereby is granted and vested with the exclusive right, privilege, and option to renew this lease agreement, in all of its terms and provisions, including this provision, for successive annual terms, each commencing at 12:01 a.m. July 1 and ending at 11:59 p.m. on the next ensuing June 30 until title to the leased property shall have been conveyed to the District by the Authority as above set forth; provided, that if the District shall not otherwise indicate the exercise and said right, privilege, and option of renewal, but the District shall in any manner have possession of the leased property, at 12:01 a.m. on July 1 of any year next succeeding any term hereof, or on said date claim the right of possession thereof, the said act of possession or said claim shall be deemed an affirmative election and action of the District to renew this lease agreement for the annual term commencing on said date aforesaid.
- C. During each year of this lease agreement, the District shall pay to the Authority, 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 Authority in accounts or funds in relation to the debt; plus
 3. Any amount, fees, and expenses which the Authority 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 the lease agreement; plus
 4. The amounts required to be expended by the Authority 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.

Valliant School Authority
Valliant, Oklahoma
Notes to the Financial Statements
June 30, 2013

Note D – Trust Indenture

Purposes of Trust

The purposes of this trust are:

- A. To furnish and supply to the inhabitants, owners, and occupants of property and to industrial, commercial, and mercantile establishments and enterprises within the corporate proximity thereto, and to the beneficiary and any other governmental agencies or endeavors, utility services, and facilities for all purposes that the same be authorized or proper as a function of the beneficiary; and to fix, demand, and collect charges, rates, and fees for said services and facilities to the same extent as the beneficiary itself might do; provided, that the furnishing of any services or facilities to any person delinquent in the payment of any indebtedness whatsoever to the trust may be discontinued at any time;
- B. To promote the development of industry and culture and industrial, manufacturing, cultural, and educational activities within and without the territorial limits of the beneficiary and to thereby provide industrial and cultural facilities and additional employment and activities which will benefit and strengthen culture and the economy of the beneficiary and the State of Oklahoma.
- C. For the furtherance of the greater convenience and welfare of the beneficiary and the inhabitants thereof, to provide and/or to aid in providing and/or to participate in providing the United States of America, the State of Oklahoma, the beneficiary, the county or counties in which the beneficiary is located, the school district and/or districts included in whole or in part, within the limits of the beneficiary, and/or any agency or instrumentality of either or any of them, or to any one or more of them, facilities and/or service of any and/or all kinds necessary or convenient for the functioning thereof;
- D. 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;
- E. To acquire by lease, purchase or otherwise, and to hold, construct, install, equip, repair, enlarge, furnish, maintain, and operate or otherwise deal with, any and all physical properties and facilities needful or convenient for utilization in executing or promoting the execution of the aforesaid trust purposes or any of them or which may be useful in securing, developing, and maintained industry and industrial, manufacturing, or other activities in the beneficiary and territory in proximity thereto, or which may be useful in promoting culture and education in the aforesaid area; to lease, rent, furnish, provide, relinquish, sell, or otherwise dispose of, or otherwise make provision for, any or all of said properties and facilities, either in execution of any of the aforesaid trust purposes or in the event that any thereof shall no longer be needful of such purposes;

Valliant School Authority
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Notes to the Financial Statements
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- F. To provide funds for the costs of financing, improving, extending, enlarging, maintaining, operating, administering and disposing of or otherwise dealing with any of the aforesaid physical properties and facilities, and for administering the trust of any or all of the aforesaid trust purposes, and for all other charges, costs, and expenses incidental thereto; and in so doing to incur indebtedness, either unsecured or secured by any part or parts of the trust estate and/or revenues thereof;
- G. To expend all funds coming into the hands of the trustees, as revenue or otherwise, in the payment of the aforesaid costs and expenses, and in the payment of any indebtedness incurred by the trustees for the purposes specified herein, and in the payment of any other debt or obligation properly chargeable against the trust estate, and to distribute the residue and remainder of such funds to the beneficiary for the payment of all or any part of the principal and/or interest of any bonded indebtedness of the beneficiary and/or for any one or more authorized or proper purposes of the beneficiary and/or for any one or more authorized or proper purposes of the beneficiary as shall be specified by the trustees hereunder; provided, that all surplus revenues accruing to the trustees and of the residue of the trust estate shall be transferred in the manner provided by this instrument to Valliant Independent School District No. 11 of McCurtain County, Oklahoma, for the furtherance of the foregoing purposes, said District encompassing the corporate limits of the beneficiary and the enhancement of its assets and the lessening of the burdens involved in performance of its public functions being a direct and immediate benefit to the beneficiary and its inhabitants;
- H. Whenever the same shall be or become material, the purposes set forth in paragraphs (a), (b), and (c) of this section shall be the primary objective of this trust and the provision of paragraphs (d) to (g), inclusive, shall be deemed and construed in implementation thereof and collateral thereto.

For all purposes of this section, the word “facilities” as used herein means real estate and all privileges, benefits, and appurtenances thereto, also buildings, structures, installations, and all physical property whatsoever, and all rights, privileges, and benefits appertaining or related thereto.

The Trust Estate

The trust estate shall consist of all money, property, (real, personal, and/or mixed), rights, chooses in action, contracts, leases, privileges, franchises, benefits, and all other things of value, (whether or above-described), presently in or hereafter coming into the hands, or under the control of the trustee pursuant to the provisions of this instrument or by virtue of the trusteeship herein declared.

Valliant School Authority
Valliant, Oklahoma
Notes to the Financial Statements
June 30, 2013

Beneficiary of Trust

- A. The term “beneficiary,” as used in this instrument, shall denote the incorporated Town of Valliant, State of Oklahoma, and likewise shall denote any municipal entity which hereafter may succeed said incorporated town as the governing authority of the territory lying within the municipal boundaries of said incorporated town on the effective date of this instrument.
- B. The beneficiary shall have no legal claim or right to the trust estate, or to any part thereof, against the trustees or anyone holding under them; neither shall the beneficiary, as such, have any authority, power or right whatsoever to do or transact any business whatsoever for or on behalf of, or binding upon, the trustees of the trust estate, neither shall the beneficiary have the right to control or direct the actions of the trustees in respect to the trust estate, or any part thereof; nor shall the beneficiary have any right to demand or require any partition or distribution of the trust estate, or any part thereof.
- The beneficiary shall be entitled solely to the benefits of this trust, as administered by the trustees hereunder, at the termination of the trust, as provided herein, and then only, the beneficiary shall receive the residue of the trust estate. Notwithstanding anything in the aforesaid appearing to be to the contrary, no provision in this instrument and/or of the acceptance of beneficial interest there under by the governing body of the said beneficiary, limiting, restricting or denying any authority, power, or right of the beneficiary of said trust in relation to the administration thereof is intended, or shall be construed or interpreted, to effect a surrender, or to attempt to effect a surrender, of any of the sovereign governmental powers of the State of Oklahoma or of the beneficiary; but any and all provisions of this trust instrument are intended, and shall be applied, to relate solely and only to the proprietary rights and property interest of the said beneficiary, in trust, as distinguished from its sovereign governmental powers and authority. Moreover, it further is agreed that nothing contained in this declaration of trust and/or in the acceptance of beneficial interest there under shall be construed, interpreted, or applied as intending to grant or to grant to the trustee hereunder an exclusive franchise in relation to any powers, rights, or authority of the trustee under this trust instrument.

Termination of Trust

- A. This trust shall be irrevocable by the trustor and shall terminate;
1. When the purpose set forth in Section III of this instrument shall have been fully executed and fulfilled; or

Valliant School Authority
Valliant, Oklahoma
Notes to the Financial Statements
June 30, 2013

2. In the event of the happening of any event or circumstances that would prevent said purposes from being executed and fulfilled and all of the trustees and the governing body of the municipality having beneficial interest hereunder, with the approval of the Governor of the state of Oklahoma, shall agree that such event or circumstances has taken place; provided, however, that all indebtedness of the trust shall have been paid; or
 3. In the manner provided by Title 60, Section 180, Oklahoma Statutes 1971; provided, however, that this trust shall not be terminated by voluntary action if there be outstanding indebtedness of fixed-term obligations of the trustee, unless all owners of such indebtedness or obligation, or someone authorized by them so to do, shall have consented in writing to such termination.
- B. Upon the termination of this trust, the trustee shall proceed to wind up the affairs of the trust and, after payment of all debts and obligations out of trust assets, to the extent thereof, shall distribute the residue of the trust assets to the beneficiary hereunder as provided in Section III of this instrument. Upon final distribution as aforesaid, the powers, duties, and authority of the trustees hereunder shall cease.

Debt Service Fund

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 of the note next due a sum equal to said installment, at least one-twelfth (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 did not have a balance at June 30, 2013. The August 1, 1979, promissory note for \$1,640,000, Note No. 42-45-731047343, requires that monthly transfers of \$8,053 be made to this account for payment of the indenture's requirements. Twelve such transfers were made during the year.

Reserve Fund

This account is created for the purposes 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 purpose of making debt service payments on the note in the event the amount

Valliant School Authority
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June 30, 2013

in the debt service account is insufficient to meet such payments. The August 1, 1979, promissory note for \$1,640,000 requires that monthly transfers of \$806 be made from the revenue fund to a reserve fund until a balance of \$96,636 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 restricted asset account (reserve fund) had a balance of \$96,636 at June 30, 2013.