

**Valliant School Authority  
Valliant, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended June 30, 2011 and 2010

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

Broken Arrow, Oklahoma

**Valliant School Authority**  
**Valliant, Oklahoma**

Board of Directors  
June 30, 2011

*President*

Mike Weeks

*Vice President*

Galen Hale

*Clerk*

Tony Tuck

*Members*

Eddy Dempsey  
Terry McDaniel

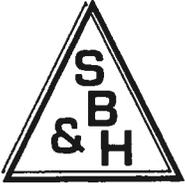
*Treasurer*

Amy Keeton

**Valliant School Authority  
Valliant, Oklahoma**

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June 30, 2011

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**SANDERS, BLEDSOE & HEWETT**  
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**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, 2011 and 2010, 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, 2011 and 2010, 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 February 17, 2012, 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*

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP  
February 17, 2012



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**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, 2011, and have issued our report thereon dated February 17, 2012. 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  
February 17, 2012

**Valliant School Authority**  
**Valliant, Oklahoma**  
Disposition of Prior Year's Reportable Conditions  
June 30, 2011

There were no prior year reportable conditions.

**Valliant School Authority**  
**Valliant, Oklahoma**  
Schedule of Audit Results  
June 30, 2011

**Findings – Financial Statement Audit**

None

**Valliant School Authority**  
**Valliant, Oklahoma**  
Balance Sheets - All Proprietary Fund Types  
June 30, 2010 and 2011

	<b>June 30,</b>	
<b><u>ASSETS</u></b>	<b>2011</b>	<b>2010</b>
<b>Current Assets (Notes A and D)</b>		
Cash in bank	\$ 24,159	8,053
Investments	108,563	105,908
Total current assets	132,722	113,961
<b>Restricted Assets (Notes A and D)</b>		
Investments		
Reserve fund	97,236	97,236
<b>Fixed Assets (Note A)</b>		
School buildings, furniture, fixtures, and equipment	1,640,000	1,640,000
Less: accumulated depreciation	(1,017,764)	(976,764)
Total fixed assets	622,236	663,236
<b>Total Assets</b>	\$ 852,194	874,433
<b><u>LIABILITIES AND RETAINED EARNINGS</u></b>		
<b>Current Liabilities</b>		
Accrued interest payable	\$ 2,443	2,493
Current maturities of long-term debt	67,420	64,949
Total Current Liabilities	69,863	67,442
<b>Long-term Debt, Less Current Maturities (Note A)</b>		
Rural Development Note	547,521	598,287
<b>Total Liabilities</b>	617,384	665,729
<b>Retained Earnings</b>		
Reserved for promissory note indenture	97,236	97,236
Unreserved	137,574	111,468
Total Retained Earnings	234,810	208,704
<b>Total Liabilities and Retained Earnings</b>	\$ 852,194	874,433

*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, 2010 and 2011**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenue from Operations</b>		
Lease of buildings	\$ 88,583	96,636
<b>Expenses from Maintenance and Operations</b>		
Depreciation	41,000	61,788
<b>Net Income (Loss) from Operations</b>	47,583	34,848
<b>Nonoperating Revenue</b>		
Interest on investments	2,655	4,608
<b>Nonoperating Expense</b>		
Interest on note	(24,132)	(34,320)
<b>Net Income (Loss)</b>	26,106	5,136
<b>Retained Earnings, Beginning of Year</b>	208,704	203,568
<b>Retained Earnings, End of Year</b>	\$ 234,810	208,704

*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, 2010 and 2011**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Cash received from leasing buildings	\$ 88,583	96,636
<b>Cash Flows from Investing Activities</b>		
Interest earnings	2,655	4,608
<b>Cash Flows from Financing Activities</b>		
Interest expenses on debt	(21,018)	(34,848)
Principal payments on long-term debt	(51,459)	(61,788)
Net cash flows from financing activities	(72,477)	(96,636)
 <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	 18,761	 4,608
<b>Cash and Cash Equivalents, Beginning of Year</b>	211,197	206,589
<b>Cash and Cash Equivalents, End of Year</b>	\$ 229,958	211,197

*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, 2011

**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, 2011, are detailed as follows:

Revenue account - cash - unrestricted	\$	24,159
Savings account - investments - restricted		97,236
Savings account - investments - unrestricted		<u>108,563</u>
 Total	 \$	 <u>229,958</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**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Rural Development Note No. 96-01, issued August 1, 1979, at 5 percent, payable in monthly principal and interest payments of \$8,053	\$ 614,941	663,236
Less current maturities	<u>(67,420)</u>	<u>(64,949)</u>
Total Long-term Debt	<u>\$ 547,521</u>	<u>598,287</u>

**Valliant School Authority**  
**Valliant, Oklahoma**  
Notes to the Financial Statements  
June 30, 2011

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:

2011 – 12	\$	67,420
2012 – 13		70,869
2013 – 14		74,495
2014 – 15		78,307
2015 – 16		82,319
Thereafter		174,111
<b>Total</b>	<b>\$</b>	<b>547,521</b>

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 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

**Valliant School Authority**  
**Valliant, Oklahoma**  
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June 30, 2011

Trust of the Authority, the District is the sole recipient of any distribution of money or 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, 2011

**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**  
**Valliant, Oklahoma**  
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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 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, choses 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, 2011

**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, 2011

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 had a \$24,159 balance at June 30, 2011. 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, 2011

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 \$97,236 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 \$97,236 at June 30, 2011.