

**Financial Statements and Reports of
Independent Certified Public Accountant
Commerce School District No. I-18
Ottawa County, Oklahoma
June 30, 2011**

TURNER & ASSOCIATES, PLC
Certified Public Accountants
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**Commerce School District No. I-18
Ottawa County, Oklahoma
School District Officials
June 30, 2011**

Board of Education

President	Steve Hartman
Vice-President	Gene Langston
Clerk	Jim Cossairt
Deputy Clerk	Kevin Reading
Member	Kenny Smith

Superintendent of Schools

Jim Haynes

School District Treasurer

Philip Geren

Minute Clerk

Trish Price

Encumbrance Clerk

Trish Price

Activity Funds Custodian

Linda Colver

Commerce School District No. I-18
Ottawa County, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Commerce School District No. I-18
Commerce, Ottawa County, Oklahoma

We have audited the accompanying regulatory basis financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Commerce School District No. I-18, Ottawa County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commerce School District's management. Our responsibility is to express opinions 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 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 the 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 opinions.

As discussed in Note 1, Commerce School District, No. I-18 prepares its financial statements on a basis of accounting prescribed by the Oklahoma State Department of Education that demonstrates compliance with the cash basis and budget laws of the State of Oklahoma, which is a comprehensive basis of accounting which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonable determined, are reasoned to be material. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

As also discussed in Note 1, the regulatory basis financial statements referred to above do not include the general fixed assets account group. The amount that should be recorded in the general fixed assets account group is not known. If the general fixed assets account group had been included, the amount of the adjustments to the regulatory financial statements is not known.

In our opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Commerce School District No. I-18, as of June 30, 2011, or the results of its operations for the year then ended. Further, Commerce School District No. I-18, has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

However, in our opinion, except for the omission of the general fixed assets account group results in an incomplete presentation as explained in the fourth paragraph above, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group, where applicable, of Commerce School District No. I-18 as of June 30, 2011, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of Commerce School District No. I-18's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the regulatory basis financial statements that collectively comprise the Commerce School District's financial statements as a whole. The budgetary comparison schedule, combining budgetary comparison schedule, and activity funds statements are presented as a required part of the regulatory basis financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also a required part of the regulatory basis financial statements of Commerce School District. The budgetary comparison schedules, combining budgetary comparison schedule, activity funds statements and the schedule of expenditures of federal awards is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

TURNER & Associates, PLLC

Vinita, Oklahoma
December 15, 2011



**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***

The Honorable Board of Education
Commerce School District No. I-18
Commerce, Ottawa County, Oklahoma

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Commerce School District No. I-18, Ottawa County, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the Commerce School District's basic financial statements and have issued our report thereon dated December 15, 2011. We conducted our 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 our audit, we considered the Commerce School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commerce School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commerce School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses in internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies, 2011-1, 2011-2, and 2011-3 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commerce School District'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-3.

The Commerce School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Commerce School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, Oklahoma State Auditor and Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma
December 15, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Board of Education
Commerce School District No. I-18
Commerce, Ottawa County, Oklahoma

Compliance

We have audited Commerce School District No. I-18, Ottawa County, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Commerce School District No. I-18, Ottawa County, Oklahoma's major federal programs for the year ended June 30, 2011. Commerce School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Commerce School District No. I-18, Ottawa County, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Commerce School District No. I-18, Ottawa County, Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Commerce School District No. I-18, Ottawa County, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commerce School District No. I-18, Ottawa County, Oklahoma's internal control over compliance with requirements that could have a direct and material effect on a major federal program in

order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commerce School District No. I-18, Ottawa County, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Commerce School District No. I-18, Ottawa County, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011, which contained qualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Commerce School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Commerce School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, Oklahoma State Auditor and Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & ASSOCIATES, PLLC

Vinita, Oklahoma
December 15, 2011

COMBINED FINANCIAL STATEMENTS

Commerce School District No. I-18
Combined Statement of Assets, Liabilities and Fund Balances (Regulatory Basis)
All Governmental Fund Types
June 30, 2011

	Governmental Fund Types		Fiduciary Fund Types	(Memo Only) Total
	General Fund	Special Revenue Fund	Trust and Agency	
<u>ASSETS</u>				
Cash	\$ 1,986,632.22	\$ 430,800.02	\$ 191,542.45	\$ 2,608,974.69
Investments	613,353.77	-	-	613,353.77
	-	-	-	-
Total assets	<u>\$ 2,599,985.99</u>	<u>\$ 430,800.02</u>	<u>\$ 191,542.45</u>	<u>\$ 3,222,328.46</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Payable	\$ 703,861.03	\$ 43,368.40	\$ -	\$ 747,229.43
Due to student groups	-	-	135,963.18	135,963.18
Reserve for encumbrances	91,334.17	-	-	91,334.17
Total liabilities	<u>795,195.20</u>	<u>43,368.40</u>	<u>135,963.18</u>	<u>974,526.78</u>
Fund Equity:				
Cash Fund Balance, Unassigned	1,804,790.79	-	-	1,804,790.79
Cash Fund Balance, Restricted	-	387,431.62	55,579.27	443,010.89
Total fund equity	<u>1,804,790.79</u>	<u>387,431.62</u>	<u>55,579.27</u>	<u>2,247,801.68</u>
Total liabilities and fund equity	<u>\$ 2,599,985.99</u>	<u>\$ 430,800.02</u>	<u>\$ 191,542.45</u>	<u>\$ 3,222,328.46</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combined Statement of Revenues Collected, Expenditures Paid
and Changes in Fund Balance (Regulatory Basis)
All Governmental Fund Types
For the Year Ended June 30, 2011

	Governmental Fund Types		Total (Memo Only) (Note 1)
	General	Special Revenue	
Revenues Collected:			
Local Sources	\$ 836,738.70	\$ 186,314.44	\$ 1,023,053.14
Intermediate Sources	96,981.28	-	96,981.28
State Sources	4,174,246.00	85,158.46	4,259,404.46
Federal Sources	1,592,944.07	373,787.82	1,966,731.89
Total revenues collected	<u>6,700,910.05</u>	<u>645,260.72</u>	<u>7,346,170.77</u>
Expenditures:			
Instruction	4,168,744.58	6,604.64	4,175,349.22
Support Services	2,413,691.03	20,809.25	2,434,500.28
Non-Instruction Services	3,872.67	479,803.59	483,676.26
Facilities	29,861.44	97,788.36	127,649.80
Other Outlays	24,403.32	119.43	24,522.75
Total Expenditures	<u>6,640,573.04</u>	<u>605,125.27</u>	<u>7,245,698.31</u>
Excess of revenues collected over expenditures	<u>60,337.01</u>	<u>40,135.45</u>	<u>100,472.46</u>
Other financing sources:			
Lapsed appropriations	8,089.87	-	8,089.87
Return of Assets	9,828.72	-	9,828.72
Total other financing sources	<u>17,918.59</u>	<u>-</u>	<u>17,918.59</u>
Excess of revenues and other financing sources over expenditures and other financing uses	78,255.60	40,135.45	118,391.05
Cash Fund Balance			
Beginning of Year	<u>1,726,534.42</u>	<u>347,296.17</u>	<u>2,073,830.59</u>
Cash Fund Balance End of Year	<u>\$ 1,804,790.02</u>	<u>\$ 387,431.62</u>	<u>\$ 2,192,221.64</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balance, Budget and Actual (Regulatory Basis)
General and Special Revenue Funds
For the Year Ended June 30, 2011

	General Fund			Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues Collected:						
Local Sources	\$ 735,069	\$ 735,069	\$ 854,658	\$ 159,354	\$ 159,354	\$ 214,243
Intermediate Sources	105,950	105,950	96,981	8,356	8,356	-
State Sources	4,242,371	4,242,371	4,174,246	53,692	53,692	57,258
Federal Sources	1,144,873	1,144,873	1,592,944	336,246	336,246	373,788
Total revenues collected, budgetary basis	<u>6,228,263</u>	<u>6,228,263</u>	<u>6,718,829</u>	<u>557,649</u>	<u>557,649</u>	<u>645,289</u>
Expenditures Paid:						
Instruction	4,991,297	7,464,134	4,168,745	132,900	14,525	6,605
Support Services	2,742,000	459,650	2,413,691	437,840	250,784	20,809
Non-Instruction Services	32,000	3,800	3,873	-	439,340	479,804
Facilities	80,000	-	29,861	333,177	200,000	97,788
Other Outlays	109,500	27,213	24,403	1,000	269	119
Total expenditures paid, budgetary basis	<u>7,954,797</u>	<u>7,954,797</u>	<u>6,640,573</u>	<u>904,917</u>	<u>904,917</u>	<u>605,125</u>
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	(1,726,534)	(1,726,534)	78,256	(347,268)	(347,268)	40,164
Cash Fund Balance Beginning of the Year	<u>1,726,534</u>	<u>1,726,534</u>	<u>1,726,534</u>	<u>347,268</u>	<u>347,268</u>	<u>347,268</u>
Cash Fund Balance End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,804,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,432</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the District's financial statements.

The District's financial statements are prepared in with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education which demonstrates compliance with the cash basis and budget laws of the State of Oklahoma. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on state of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education (Board) composed of five elected members. The appointed superintendent is the executive officer of the District. The Board, constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Local Independent School District. The Board receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

These financial statements present only the activities of the District. There are no component units (entities considered to be financially accountable to the District).

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accounts of the District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (continued)

The District uses funds and account groups to report its assets, liabilities and equities and its revenue and expenditures. Fund accounting is designated to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate “fund types.”

The District has the following fund types:

Governmental Fund Types - are used to account for most of the District’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

Governmental fund types include the following funds:

General Fund - The General Fund is the general operating fund of the District. It accounts for all financial resources of the District, except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use. Major revenue sources include local property taxes and federal and state funding. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund also accounts for federal and state financed programs where restricted monies must be expended for specific programs.

Special Revenue Funds - The special revenue funds account for revenue sources that are restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The special revenue funds are composed of the District's Building Fund, Child Nutrition Fund, and Insurance Recovery Fund. These are budgeted funds and any fund balances are considered as resources available for use.

Building Fund - The Building Fund consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing or maintaining school buildings and for purchasing furniture, equipment and computer software to be used on or for school district property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire and casualty insurance premiums for school facilities, for purchasing security systems, and for paying salaries of security personnel.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (continued)

Child Nutrition Fund - The Child Nutrition Fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the operations of the school cafeteria.

Coop Fund - The Coop Fund consists of monies derived from other Districts which participate in shared programs. This fund is used to account for the operations of the shared programs.

Fiduciary Fund Types - are used to account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Fiduciary fund types include the following funds:

Agency Fund - The Agency Fund is custodial in nature and does not present results of operations. Agency Funds are accounted for using the cash basis of accounting. This fund is the School Activities Fund which is used to account for monies collected principally through fund raising efforts of the students and District-sponsored groups. This is not a budgeted fund. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operation of the District.

Scholarship Funds - The District provides scholarships to seniors from funds established by donations. The Alexander, Douglas, and Streeter funds are interest only; the Bundy fund is \$200 per year until all funds are expended; and , the Miller fund is a combination of interest and principle. This is not a budgeted fund. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these Trust funds. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operation of the District.

Memorandum Only – Total Column

The total column on the financial statements is captioned “Memo Only” to indicate that it is present only to facilitate financial analysis. Data in this column does not present assets and liabilities, revenues collected and expenditures paid in conformity with the statutory basis of accounting. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

1. Regulatory Basis Financial Statements

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. This format significantly differs from that required by GASB 34.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (continued)

The basic financial statements are essentially prepared on a basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education (OSDE) as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which requires revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

C. Assets, Liabilities, Fund Balance, Revenue and Expenditures

1. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District invests entirely in certificates of deposit, U.S. Treasury Securities, and participates in the Secured Investment Program of Oklahoma State School Boards Association, as authorized by Oklahoma Statutes Title 62, Section 348.

The District's financial instruments include cash and investments. The District's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

2. Fair Value of Financial Instruments

The District's financial instruments include cash and investments. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

5. Inventories

The value of consumable inventories at June 30, 2011, is not material to the financial statements. Acquisitions are considered expenditures at the time of purchase and are not recorded for financial statement purposes.

6. Fixed Assets and Property, Plant and Equipment

Land, buildings, non-structural improvements, and all other physical assets in all funds are considered expenditures in the year of acquisition and are then recorded as investments in fixed assets for financial statement purposes. The District does not have the information necessary to include the general fixed asset account group in its combined financial statements.

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources.

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, Fund Balance, Revenue and Expenditures

8. Long-Term Obligations

In the District-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities. In the Fund Financial Statements, the face amount of debt issues is reported as revenues while principal and interest payment on debt are recorded as expenditures. The District has no bonds outstanding.

9. Property Taxes and Other Local Revenues

The District is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer. Property taxes are levied on November 1 and are due on receipt of the tax bill. The first half of taxes is due prior to January 1. The second half is due prior to April 1. If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the assessment. If not paid by the following October 1, the property is offered for sale for the amount of the taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property. No provision has been made for uncollected taxes, as all taxes are deemed collectible. Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

10. Intermediate Revenues

Revenue from intermediate sources is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between the district and the state, and distributed to districts in amounts that differ in proportion to those which were collected within such systems.

11. State Revenues

The District receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund. Revenues from state sources for current operations are primarily governed by state aid formula under the provisions of Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts. After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, Fund Balance, Revenue and Expenditures (continued)

12. Federal Revenues

Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a pass through from another government, such as the state. Entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes. The majority of federal revenues received by the District are apportioned to the general fund. The district maintains a separate child nutrition fund and the federal revenues received for the child nutrition programs are apportioned there.

13. Net Assets/Fund Balances

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed on the use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The District's Board of Education is the highest level of decision making authority of the District.

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities, Fund Balance, Revenue and Expenditures (continued)

13. Net Assets/Fund Balances (continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

14. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the District considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the District's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the District considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability

A. Budgetary Information

The District is required by state law to prepare an annual budget. An annual Estimate of Needs is approved by the Board in September, filed with the County Clerk and approved by the County Excise Board. Supplemental appropriations are made during the year. The District's budget is prepared on a basis of accounting prescribed by the Oklahoma Department of Education which conforms to the system of accounting authorized by the State of Oklahoma. This regulatory basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

B. Encumbrance Accounting

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund -- is utilized in all governmental funds of the District. Purchase orders or contracts document encumbrances for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

III. Detailed Notes Concerning the Funds

A. Custodial Credit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. At June 30, 2011, none of the District's deposits at the Bank of Commerce and 1st Bank Oklahoma were not exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

C. Long-Term Debt

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years from the date of issue. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund. The District has no bonds outstanding.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds

C. Long-Term Debt (continued)

Lease Purchase

The District has entered an agreement to lease purchase three (3) modular classroom buildings to be placed at the high school, middle school and elementary school. The lease agreement became effective on August 15, 2006. The lease will be required to be ratified each fiscal year and, if so, will continue until August of 2018. The interest rate is 5.49% annually, compounded monthly. Payments are in the amount of \$2,428, to be paid monthly and will continue for 120 months.

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2012	\$ 22,508.29	\$ 6,625.48	\$ 29,133.77
2013	23,776.72	5,356.64	29,133.36
2014	25,116.60	4,017.47	29,134.07
2015	26,532.02	2,601.34	29,133.36
2016	28,027.19	1,106.17	29,133.36
2017-2018	4,822.40	33.16	4,855.56
Totals	<u>\$ 130,783.22</u>	<u>\$ 19,740.26</u>	<u>\$ 150,523.48</u>

Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The District also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the District reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma.

In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to them during the plan year. As a member of OSAG, the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the

District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the District's losses for the last five years. OSAG provides coverage in excess of the loss fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use their loss fund in three years it is returned to them with no interest.

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

C. Non-Monetary Transactions

The fair market value as determined by the Oklahoma Department of Human Services of the commodities received during the period under audit was \$18,419.55.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information (continued)

D. Employee Retirement System and Plan (continued)

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is cost-sharing, multiple-employer defined benefit public employee retirement system (PERS) administered by the Board of Trustees of the Oklahoma Teachers' Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152 or by calling (405) 521-2387.

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee may make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. The District and State are required to contribute 11.5% of applicable compensation. Contributions received by the System from the State of Oklahoma are from 3.54% of its revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. The District contributed 7.05% during this year. The combined state and local rate will stabilize at 14.05%. The District is allowed by the System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information (continued)

D. Employee Retirement System and Plan (continued)

Annual Pension Cost

The District's total contributions for 2011 and 2010 were \$373,195 and \$393,043, and 571,816 respectively.

Schedule of Funding Progress (dollars in millions)

Actuarial Valuation Date	Actuarial Value of Assets (AVA)(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability (UAAL)(b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
6/30/2000	5,373.5	10,009.2	4,635.7	53.7%	2,738.3	169.3%
6/30/2001	5,959.0	11,591.1	5,632.1	51.4%	2,990.5	188.3%
6/30/2002	6,310.9	12,275.9	5,965.0	51.4%	3,047.1	195.8%
6/30/2003	6,436.9	11,925.2	5,488.3	54.0%	3,045.7	180.2%
6/30/2004	6,660.9	14,080.1	7,419.2	47.3%	3,030.7	244.8%
6/30/2005	6,952.7	14,052.4	7,099.7	49.5%	3,175.2	223.6%
6/30/2006	7,470.4	15,143.4	7,672.9	49.3%	3,354.9	228.7%
6/30/2007	8,421.9	16,024.4	7,602.5	52.6%	3,598.9	211.2%
6/30/2008	9,256.8	18,346.9	9,090.1	50.5%	3,741.4	242.3%
6/30/2009	9,439.0	18,950.9	9,512.0	49.8%	3,807.9	249.8%
6/30/2010	9,566.7	19,980.6	10,414.0	47.9%	3,854.8	270.2%

Note: Dollar amounts in millions

**Commerce School District No. I-18
Ottawa County, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information (continued)

G. Section 125 Flexible Benefit Plan

The District has adopted a Section 125 Flexible Benefit Plan whereby all employees that complete one month of service and complete at least 17 ½ hours of service per week are eligible to participate. The employer may, at its sole discretion, provide a non-elective contribution to provide benefits for each participant under the Plan. Available benefits include: group health and surgery insurance, disability income insurance and cancer coverage.

E. Surety Bonds

The Superintendent is bonded by Travelers Casualty and Surety Company, bond number 105321284, for the sum of \$100,000 for the term July 1, 2010 to July 1, 2011.

The Treasurer is bonded by Travelers Casualty and Surety Company, bond number 105530508, for the sum of \$75,000 for the term December 1, 2010 to December 1, 2013.

The Financial Secretary/Encumbrance Clerk is bonded by Travelers Casualty and Surety Company, bond number 105530508, for the sum of \$5,000 for the term December 1, 2010 to December 1, 2013.

F. Subsequent Events

Management has evaluated subsequent events through December 15, 2011 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

OTHER SUPPLEMENTARY INFORMATION

Commerce School District No. I-18
Combining Statement of Assets, Liabilities and Fund Balance (Regulatory Basis)
All Special Revenue Funds
June 30, 2011

<u>ASSETS</u>	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Cooperative Fund</u>	<u>(Memo Only) Total</u>
Cash	\$ 375,816.77	\$ 53,844.78	\$ 1,138.47	\$ 430,800.02
Total assets	<u>\$ 375,816.77</u>	<u>\$ 53,844.78</u>	<u>\$ 1,138.47</u>	<u>\$ 430,800.02</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Warrants Payable	\$ -	\$ 42,142.58	\$ 1,225.82	\$ 43,368.40
Fund Equity:				
Cash Fund Balance, Restricted	<u>375,816.77</u>	<u>11,702.20</u>	<u>(87.35)</u>	<u>387,431.62</u>
Total liabilities and fund equity	<u>\$ 375,816.77</u>	<u>\$ 53,844.78</u>	<u>\$ 1,138.47</u>	<u>430,800.02</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Revenues Collected, Expenditures Paid
and Changes in Fund Balance (Regulatory Basis)
All Special Revenue Funds
June 30, 2011

	Building Fund	Child Nutrition Fund	Cooperative Fund	(Memo Only) Total
Revenues Collected:				
Local Sources	\$ 125,510.70	\$ 60,803.54	\$ -	\$ 186,314.24
State Sources	27,900.00	57,258.46	-	85,158.46
Federal Sources	-	365,474.67	8,313.15	373,787.82
Total revenues collected	<u>153,410.70</u>	<u>483,536.67</u>	<u>\$ 8,313.15</u>	<u>645,260.52</u>
Expenditures:				
Instruction	-	-	6,604.64	6,604.64
Support Services	20,202.50	-	606.75	20,809.25
Non-Instruction Services	97,788.36	479,803.59	-	577,591.95
Facilities, acquisition, and construction services	-	-	-	-
Other Outlays	-	119.43	-	119.43
Total Expenditures	<u>117,990.86</u>	<u>479,923.02</u>	<u>7,211.39</u>	<u>605,125.27</u>
Excess of revenues collected over expenditures	<u>35,419.84</u>	<u>3,613.65</u>	<u>1,101.76</u>	<u>40,135.25</u>
Cash Fund Balance Beginning of Year	<u>340,396.93</u>	<u>8,088.55</u>	<u>(1,189.31)</u>	<u>347,296.17</u>
Cash Fund Balance End of Year	<u>\$ 375,816.77</u>	<u>\$ 11,702.20</u>	<u>(87.55)</u>	<u>\$ 387,431.42</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balance (Regulatory Basis)
Budget and Actual – All Special Revenue Funds
For the Year Ended June 30, 2011

	Special Revenue Funds					
	Building Fund			Child Nutrition Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues Collected:						
Local Sources	\$ 101,423.64	\$ 101,423.64	\$ 153,410.70	\$ 57,930.62	\$ 57,930.62	\$ 60,803.54
State Sources	8,356.32	8,356.32	-	53,691.99	53,691.99	57,258.46
Federal Sources	-	-	-	319,628.50	319,628.50	365,474.67
Total revenues collected, budgetary basis	<u>109,779.96</u>	<u>109,779.96</u>	<u>153,410.70</u>	<u>431,251.11</u>	<u>431,251.11</u>	<u>483,536.67</u>
Expenditures Paid:						
Support Services	117,000.00	250,176.89	20,202.50	2,000.00	-	-
Non-Instruction Services	-	-	97,788.36	436,839.66	439,339.66	479,803.59
Facilities	333,176.89	200,000.00	-	-	-	-
Other Outlays	-	-	-	500.00	-	119.43
Total expenditures paid, budgetary basis	<u>450,176.89</u>	<u>450,176.89</u>	<u>117,990.86</u>	<u>439,339.66</u>	<u>439,339.66</u>	<u>479,923.02</u>
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	(340,397)	(340,397)	35,420	(8,089)	(8,089)	3,614
Cash Fund Balance Beginning of the Year	<u>340,397</u>	<u>340,397</u>	<u>340,397</u>	<u>8,089</u>	<u>8,089</u>	<u>8,088.55</u>
Cash Fund Balance End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,816.77</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,702.20</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balance (Regulatory Basis)
Budget and Actual – All Special Revenue Funds
For the Year Ended June 30, 2011

	Cooperative Fund			Total Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues Collected:						
Local Sources	\$ -	\$ -	\$ 28.79	\$ 159,354.26	\$ 159,354.26	\$ 214,243.03
State Sources	-	-	-	62,048.31	62,048.31	57,258.46
Federal Sources	16,617.53	16,617.53	8,313.15	336,246.03	336,246.03	373,787.82
Total revenues collected, budgetary basis	16,617.53	16,617.53	8,341.94	557,648.60	557,648.60	645,289.31
Expenditures Paid:						
Instruction	13,899.63	14,524.22	6,604.64	132,899.63	14,524.22	6,604.64
Support Services	1,000.00	606.75	606.75	437,839.66	250,783.64	20,809.25
Non-Instruction Services	-	-	-	-	439,339.66	577,591.95
Facilities, acquisition and construction	-	-	-	333,176.89	200,000.00	-
Other Outlays	500.00	268.66	-	1,000.00	268.66	119.43
Total expenditures paid, budgetary basis	15,399.63	15,399.63	7,211.39	904,916.18	904,916.18	605,125.27
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	1,218	1,218	1,131	(347,268)	(347,268)	40,164
Cash Fund Balance Beginning of the Year	(1,218)	(1,218)	(1,218)	347,268	347,268	347,268
Cash Fund Balance End of the Year	\$ -	\$ -	\$ (87.35)	\$ -	\$ -	\$ 387,432

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Assets, Liabilities and Fund Balance
(Regulatory Basis)
Fiduciary Funds
June 30, 2011

	<u>Agency Funds</u>	<u>Trust Funds</u>	<u>Total</u>
	Activity	Scholarship	Trust and
	Funds	Funds	Agency Funds
ASSETS			
Cash and Cash Equivalents	\$ 135,963.18	\$ 55,579.27	\$ 191,542.45
LIABILITIES & FUND EQUITY			
Due to Students	135,963.18	-	135,963.18
Fund Equity:			
Reserved for Scholarships	-	55,579.27	55,579.27
Total liabilities and fund equity	\$ 135,963.18	\$ 55,579.27	\$ 191,542.45

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Changes in Assets and Liabilities (Regulatory Basis)
Agency Funds -Activity Funds
For the Year Ended June 30, 2011

<u>ACTIVITIES</u>	<u>Balance July 1, 2010</u>	<u>Receipts</u>	<u>Adjustments</u>	<u>Disbursements</u>	<u>Balance June 30, 2011</u>
Football booster club	\$ 957.20	\$ 11,550.00	\$ -	\$ 10,464.03	\$ 2,043.17
Parent faculty club	18,828.04	16,448.24	-	25,523.82	9,752.46
General fund	6,758.06	5,088.73	79.84	5,868.62	6,058.01
Elementary kindergarten	719.18	2,688.00	-	2,510.99	896.19
Library	1,388.21	6,631.59	-	6,604.59	1,415.21
Class of 2010	79.84	-	(79.84)	-	-
Principals elementary	10,234.80	13,648.53	(500.00)	11,128.04	12,255.29
AES Phys Ed	-	-	497.15	129.85	367.30
AES Miscellaneous	1,506.79	760.85	(497.15)	46.11	1,724.38
Ping Pong Club	-	238.00	-	209.15	28.85
CHS Key Club	15.65	-	-	-	15.65
Cheerleaders	680.12	7,940.25	1,180.00	8,889.55	910.82
Cheerleaders booser	13.20	-	-	-	13.20
Class of 2011	295.00	1,381.00	-	1,448.81	227.19
Library	111.77	1,198.23	-	1,206.45	103.55
Sadd	50.00	-	-	-	50.00
STUCCO	104.92	1,333.01	-	1,385.75	52.18
TSA club	898.52	5,033.00	-	5,004.51	927.01
Principals middle school	35.67	11,466.47	1,250.00	11,751.50	1,000.64
Annual	6,022.21	8,991.62	-	8,370.20	6,643.63
Soccer	-	1,764.00	-	438.52	1,325.48
Academic team	1,809.49	-	-	95.00	1,714.49
Art suppliets	1,815.88	806.00	-	-	2,621.88
Mickey Mantle Tournament	14,000.00	27,262.53	2,100.00	33,315.00	10,047.53
Athletics-boys and girls track	428.67	93.00	-	-	521.67
Athletics-gate/officials	25,701.01	53,175.35	(2,690.00)	48,313.37	27,872.99
Athletics-concessions	14,471.37	30,643.89	-	26,659.84	18,455.42
Athletics-boys basketball	325.86	775.00	-	775.00	325.86
Athletics-softball	1.40	3,033.65	-	1,017.50	2,017.55
Athletics-Lift-A-Thon	1,144.49	4,022.00	-	4,078.48	1,088.01
Athletics-girls basketball	9.69	825.00	-	815.00	19.69
Athletics-baseball	541.67	-	-	-	541.67
Lady Tigers basketball booster	15.20	-	-	-	15.20
Band	2,583.77	7,856.50	-	8,438.41	2,001.86
Total activities	<u>\$ 111,547.68</u>	<u>\$ 224,654.44</u>	<u>\$ 1,340.00</u>	<u>\$ 224,488.09</u>	<u>\$ 113,054.03</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Changes in Assets and Liabilities (Regulatory Basis)
Agency Funds -Activity Funds
For the Year Ended June 30, 2011

<u>ACTIVITIES</u>	Balance July 1, 2010	Receipts	Adjustments	Disbursements	Balance June 30, 2011
Subtotals - from page 21	\$ 111,547.68	\$ 224,654.44	\$ 1,340.00	\$ 224,488.09	\$ 113,054.03
Choir	408.60	253.00	-	235.20	426.40
Band Booster	212.39	-	-	-	212.39
Baseball booster club	87.26	-	-	-	87.26
Banquet account	6.93	-	-	-	6.93
Cheerleaders	-	410.00	-	324.00	86.00
Cheeleader boosters	(2,530.79)	27,040.59	(1,090.00)	21,246.27	2,173.53
Girls Softball	0.10	-	-	-	0.10
Drama	241.02	1,431.00	-	1,120.19	551.83
Boys basketball booster club	69.41	-	-	-	69.41
FCCLA	7,478.23	27,706.45	-	27,537.77	7,646.91
FCA	140.50	-	-	-	140.50
Foreign language	645.85	2,031.55	-	1,793.20	884.20
Jr Parents After-Prom booste	43.26	10,162.11	-	10,150.08	55.29
Library	674.97	1,029.05	-	978.35	725.67
NHS	24.63	680.00	-	678.48	26.15
Principals high school	6,684.10	3,657.16	(250.00)	3,870.49	6,220.77
SADD	572.13	-	-	-	572.13
Science club	157.70	1,270.32	-	1,111.04	316.98
Class of 2012	80.00	2,940.00	-	2,353.08	666.92
STUCO	903.69	4,741.86	-	4,653.34	992.21
Miscellaneous	1,047.38	-	-	-	1,047.38
ASSETS					
Cash	<u>\$ 128,495.04</u>	<u>\$ 308,007.53</u>	<u>\$ -</u>	<u>\$ 300,539.58</u>	<u>\$ 135,962.99</u>
LIABILITIES					
Due to Students	<u>\$ 128,495.04</u>	<u>\$ 308,007.53</u>	<u>\$ -</u>	<u>\$ 300,539.58</u>	<u>\$ 135,962.99</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Combining Statement of Revenues Collected, Expenditures Paid
and Changes in Fund Equity – Trust Funds
Endowment and Scholarship Funds
For the Year Ended June 30, 2011

Revenues Collected	
Investment income	\$ 842.44
Contributions	3,607.50
Total revenues collected	<u>4,449.94</u>
Expenditures Paid	
Scholarships	1,665.29
Bank Fees	68.20
Total expenditures paid	<u>1,733.49</u>
Excess of revenues over expenditures	2,716.45
Fund equity restricted for endowment and scholarships, beginning	<u>52,862.82</u>
Fund equity restricted for endowment and scholarships, beginning	<u><u>\$ 55,579.27</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2011

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Approved Amount</u>	<u>Balance at July 1, 2010</u>	<u>Receipts</u>	<u>Federal Expenditures</u>	<u>Receivables / (Payables) Balance at June 30, 2011</u>
U.S. Department of Education							
<i>Direct Programs:</i>							
Title VII, Part A - Indian Education	84.060	561	\$ 70,348.06	\$ 26,810.21	\$ 64,430.46	\$ 70,348.00	\$ 32,727.75
Impact Aid	84.041	591	106,766.54	(46,610.64)	60,155.90	106,766.54	-
Impact Aid Disabled	84.041	592	-	-	2,182.14	-	(2,182.14)
<i>Passed Through State Department of Education:</i>							
Title I, Part A - Improving Basic Programs	84.010	511	333,654.00	109,299.01	294,653.47	300,719.96	115,365.50
Title I, Part A - School Support	84.010	515	120,549.72	-	7,382.69	173,254.43	165,871.74
Title I, Part C - Migrant Educations	84.011	521	101,014.18	88,518.07	127,296.30	74,081.18	35,302.87
Title I, ARRA, Part A	84.389	516	94,379.20	9,907.56	62,289.71	74,527.03	22,144.88
ARRA, Education Stabilization	84.394	782	201,972.00	-	201,972.00	201,972.00	-
ARRA, GSF	84.397	783	-	-	-	-	-
ARRA, Textbook Allocation	84.394	787	-	(767.30)	-	767.30	-
ARRA, Education Jobs Fund	84.410	790	172,400.00	-	130,272.94	172,400.00	42,127.06
IDEA-B	84.027	621	215,943.77	81,225.81	211,100.95	215,943.77	86,068.63
IDEA-B, ARRA	84.391	622	7,396.47	22,166.95	29,506.55	7,184.16	(155.44)
IDEA-B Preschool	84.173	641	5,734.30	-	5,397.74	5,734.01	336.27
IDEA-B, Preschool ARRA	84.392	643	376.84	157.61	157.61	366.73	366.73
Title II, Part A - Teacher and Principal Training and Recruiting Fund	84.336	541	56,879.88	17,718.28	44,339.67	44,907.08	18,285.69
Title II, Part D - Enhancing Education Through Technology, Formula	84.318X	546	768.44	213.68	949.63	718.78	(17.17)
Title II, Part D - Enhancing Education Through Technology, 25% Technology	84.318X	548	327.82	-	-	-	-
Title III, LEP	84.365	572	13,433.15	5,074.53	8,313.15	6,762.46	3,523.84
Title IV, Part A - Safe and Drug-Free Schools and Communities	84.186	551	3,372.91	3,979.67	3,979.67	674.58	674.58
Title IV, Part B - 21st Century Community Learning Centers	84.287	553	242,000.00	171,912.03	260,310.32	188,209.66	99,818.37
Title VI, Subpart 2 - SRSAG	84.358A	587	28,425.63	1,728.64	4,911.12	26,837.90	23,655.42
<i>Passed Through Oklahoma Department of Vocational Education:</i>							
Carl Perkins Programs	84.048	421	10,619.56	9,022.71	17,000.59	10,619.56	2,641.68
Total U.S. Department of Education			\$ 1,786,362.47	\$ 500,356.82	\$ 1,536,602.61	\$ 1,682,795.13	\$ 646,556.26

The accompanying Notes to the Financial Statements are an integral part of this statement.

Commerce School District No. I-18
Schedule of Expenditure of Federal Awards
For the Year Ended June 30, 2011
(continued)

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Approved Amount</u>	<u>Balance at July 1, 2009</u>	<u>Receipts</u>	<u>Federal Expenditures</u>	<u>Receivables / Payables / Balance at June 30, 2010</u>
U.S. Department of Agriculture							
<i>Passed Through State Department of Education:</i>							
National School Breakfast Program	10.553	385	\$ N/A	\$ -	\$ 83,325.58	\$ 83,325.58	\$ -
National School Lunch Program	10.555	385	N/A	-	276,680.56	276,680.56	-
ARRA, Equipment Assistance Grant, Child Nutrition	10.579	767	N/A	-	5,468.53	5,468.53	-
<i>Passed Through Department of Health & Human Services</i>							
Commodities - Note B	10.550	385	N/A	-	18,419.55	18,419.55	-
<i>Passed Through Oklahoma Health Care Authority</i>							
Medicaid Resources	93.778		\$ 67,000.00	\$ -	\$ 53,655.54	\$ 53,298.31	\$ (357.23)
Total U.S. Department of Agriculture			<u>\$ 67,000.00</u>	<u>\$ -</u>	<u>\$ 437,549.76</u>	<u>\$ 437,192.53</u>	<u>\$ (357.23)</u>
Other Federal Assistance							
Johnson O'Malley Program	15.130	563	\$ 6,705.00	\$ 431.00	\$ 10,872.00	\$ 10,441.00	\$ -
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,860,067.47</u>	<u>\$ 500,787.82</u>	<u>\$ 1,985,024.37</u>	<u>\$ 2,130,428.66</u>	<u>\$ 646,199.03</u>

Note A - This schedule was prepared on the accrual basis of accounting. The information in this schedule is presented in Accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Food Distribution: Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Commerce School District No. I-18
Schedule of Accountant's Professional Liability Insurance Affidavit
For the Year Ended June 30, 2011**

State of Oklahoma)
)ss
County of Craig)

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Commerce Public Schools for the audit year 2010-2011.

Turner & Associates, PLC

Auditing Firm

by _____
Authorized Agent

Subscribed and sworn to before me this 15th day of December, 2011.

Notary Public (or Clerk or Judge)

**Commerce School District No. I-18
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses a qualified opinion on the basic financial statements of Commerce School District.
2. Two material deficiencies relating to the audit of the basic financial statements are reported in the 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*. Both are considered material weaknesses.
3. No instances of noncompliance material to the financial statements of Commerce School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for Commerce School District expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.010	Title I
84.011	Title I, Migrant Education
84.389	ARRA Title I
84.027	Special Education
84.391A	ARRA Special Education
84.173	Special Education Preschool
84.392A	ARRA Special Education Preschool
84.394	ARRA Education Stabilization
84.410	ARRA Education Jobs Fund
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Commerce School District does not qualify as a low-risk auditee.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:

The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting district-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:

As is the case with many smaller and medium-sized entities, the District has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls. This finding was also noted in 2009.

Cause:

District personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:

As a result of this condition, without assistance from its external auditors or another outside source, the District may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP (continued)

Recommendation:

We recommend that the District consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

We do not believe it is cost effective, due to our size, to hire someone else to prepare the financial statements. We will continue to rely on our auditing firm to draft the financial statements from our accounting information.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-2 Cash Balances

Criteria:

The District's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data.

Condition:

The District's cash was understated by \$9,507.30 due to the 941 Bank statement Account balance not being properly reconciled.

Cause:

The District did not reconcile the balance in the 941 Bank statement account balance at June 30,2011.

Effect:

As a result of this condition, without assistance from its external auditors, the District lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation:

The District should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:

We will work with our Treasurer to ensure that all bank statements are accurately reflected in the presented financial statements.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

2011-3 Preparation of the Schedule of Expenditures of Federal Awards

Criteria:

The Department of Education requires the Schedule of Federal Expenditures as part of the Audit report. The District is responsible for the preparation of the Schedule of Expenditures of Federal Awards.

Condition:

The Schedule of Expenditures of Federal Awards was not completed by District personnel.

Cause:

The District relies on the auditor to draft financial statements including the Schedule of Expenditures of Federal Awards. Although the accounting personnel possess general accounting knowledge, assistance is needed regarding other accounting issues and accounting treatments required specific to a local government environment.

Effect:

The Schedule of Expenditures of Federal Awards was drafted by the auditor and approved by the District.

Recommendation:

The District should consider attending workshops or obtaining training on the completion of the Schedule of Expenditures of Federal Awards.

Client Response:

We will research workshops that may provide training that will assist in completion of the Schedule of Expenditures of Federal Funds.

**Commerce School District No. I-18
Ottawa County, Oklahoma
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2011**

PRIOR AUDIT FINDINGS

None.