

**FINANCIAL STATEMENTS – REGULATORY BASIS  
AND REPORTS OF INDEPENDENT AUDITOR**

**BOYNTON-MOTON INDEPENDENT SCHOOL DISTRICT NO. 1-4,  
MUSKOGEE COUNTY, OKLAHOMA**

**JUNE 30, 2011**

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

**BROKEN ARROW, OK**

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011

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**SCHOOL DISTRICT TREASURER**

Jay Jenkins

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3
Independent Auditor's Report	4
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements - Regulatory Basis – Performed in Accordance with Government Auditing Standards	5-6
Disposition of Prior Year's Reportable Conditions and Material Instances of Non-Compliance	7
Schedule of Audit Results, Findings and Questioned Costs	8
<b>Combined Financial Statements – Regulatory Basis</b>	
Combined Statement of Assets, Liabilities and Fund Equity – All Fund Types and Account Groups – Regulatory Basis	9
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types – Regulatory Basis	10
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budgeted Governmental Fund Types – Regulatory Basis	11
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budgeted Governmental Fund Types – Regulatory Basis	12
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	13
<b>Notes to Combined Financial Statements - Regulatory Basis</b>	14-28
Schedule of Accountant's Professional Liability Insurance Affidavit	29



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education  
Boyanton-Moton School District No. I-4  
Boyanton, Oklahoma

We were engaged to audit the accompanying fund type and account group financial statements of Boyanton-Moton School District No. I-4 (the District), Muskogee County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the District's management.

We were unable to obtain written representations from management of the District as required by generally accepted auditing standards. There was not an audit performed for the fiscal year ending June 30, 2010. Sufficient supporting data was not available for audit, therefore, we were not able to satisfy ourselves about the amounts in which the revenues, expenditures, and liabilities are recorded in the accompanying financial statements.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

*Sanders, Bledsoe & Hewett*

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

April 17, 2012



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN ENGAGEMENT TO AUDIT  
FINANCIAL STATEMENTS PURSUANT *GOVERNMENT AUDITING STANDARDS***

The Honorable Board of Education  
Boynton-Moton School District No. I-4  
Boynton, Oklahoma

We were engaged to audit the accompanying financial statements of the Boynton-Moton School District (the District) No. I-4, Boynton, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated April 17, 2012. Our report disclaimed an opinion on the financial statements as a whole due to lack of adequate internal controls over and supporting documentation of the general ledger account balances.

## Internal Control Over Financial Reporting

As part of our engagement to audit the financial statements, we considered the District's internal control over financial reporting as a basis for designing our engagement procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of results, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or 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 described in the accompanying schedule of results to be material weaknesses.

#### Compliance and Other Matters

As part of our engagement to obtain reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 engagement, 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*, which are described in the accompanying schedule of results.

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the company name written in a single line.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

April 17, 2012

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
SCHEDULE OF RESULTS  
JUNE 30, 2011

Summary of Auditor's Results

1. A disclaimer of opinion was issued on the financial statements.
2. As a part of our engagement to audit the financial statements, we considered the districts internal control over financial reporting and over its compliance with applicable laws and regulations of the State of Oklahoma. We were unable to obtain written representations from management and sufficient supporting data was not available for audit. Since the district consolidated, we were unable to inquire about, observe, and test the internal controls, however, as evidenced by the Special Audits preformed by the State Auditor and Inspectors office covering the periods July 1, 2007 through May 27, 2011, there were several internal control and non-compliance issues that we believe, if we had been able to audit, would have been considered material weaknesses in the internal controls over financial reporting and material instances of non-compliance with applicable laws and regulations.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2011

There was no audit presented to us for fiscal year 2009-10, therefore we are unable to comment on any prior years' reportable conditions.



INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
JUNE 30, 2011

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	AGENCY FUNDS	GENERAL LONG-TERM DEBT	(MEMORANDUM ONLY)
<u>ASSETS</u>						
Cash	\$ 55,982	19,645	33,883	464		109,974
Amounts available in debt service					32,904	32,904
Amount to be provided for retirement of long-term debt					112,096	112,096
Total Assets	<u>\$ 55,982</u>	<u>19,645</u>	<u>33,883</u>	<u>464</u>	<u>145,000</u>	<u>254,974</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Warrants payable	\$ 82,504					82,504
Unmatured obligations			34,479			34,479
Funds held for school organizations				374		374
Long-term debt:						
Bonds payable					145,000	145,000
Total liabilities	<u>82,504</u>	<u>0</u>	<u>34,479</u>	<u>374</u>	<u>145,000</u>	<u>262,357</u>
Fund Equity						
Cash fund balances	<u>(26,522)</u>	<u>19,645</u>	<u>(596)</u>	<u>90</u>		<u>(7,383)</u>
Total Liabilities and Fund Equity	<u>\$ 55,982</u>	<u>19,645</u>	<u>33,883</u>	<u>464</u>	<u>145,000</u>	<u>254,974</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	
Revenues Collected:				
Local sources	\$ 165,125	21,539	53,718	240,382
Intermediate sources	12,728			12,728
State sources	459,972	6	15	459,993
Federal sources	176,298			176,298
Interest earnings	133			133
Non-revenue	2,600			2,600
Total revenues collected	<u>816,856</u>	<u>21,545</u>	<u>53,733</u>	<u>892,134</u>
Expenditures:				
Instruction	401,554			401,554
Support services	361,295			361,295
Operation of non-instructional services	47,877			47,877
Other outlays:				
Clearing account	3,376			3,376
Debt service			55,979	55,979
Other uses	46,095	21,224		67,319
Bank fees	104			104
Total expenditures	<u>860,301</u>	<u>21,224</u>	<u>55,979</u>	<u>937,504</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(43,445)	321	(2,246)	(45,370)
Other financing sources (uses):				
Adjustment for prior years' encumbrances	1,088			1,088
Total of other financial sources uses	<u>1,088</u>	<u>0</u>	<u>0</u>	<u>1,088</u>
Excess of revenues collected over (under) expenditures	(42,357)	321	(2,246)	(44,282)
Cash fund balances, beginning of year	<u>15,835</u>	<u>19,324</u>	<u>1,650</u>	<u>36,809</u>
Cash fund balances, end of year	<u>\$ (26,522)</u>	<u>19,645</u>	<u>(596)</u>	<u>(7,473)</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 145,350	145,350	165,125	19,775
Intermediate sources	14,357	14,357	12,728	(1,629)
State sources	472,648	472,648	459,972	(12,676)
Federal sources	78,711	218,552	176,298	(42,254)
Interest earnings			133	133
Non-revenue			2,600	2,600
Total revenues collected	<u>711,066</u>	<u>850,907</u>	<u>816,856</u>	<u>(34,051)</u>
Expenditures:				
Instruction	66,780	66,780	401,554	(334,774)
Support services			361,295	(361,295)
Operation of non-instruction services			47,877	(47,877)
Other outlays:				
Clearing account			3,376	(3,376)
Other uses	660,121	799,962	46,095	753,867
Bank fees			104	(104)
Total expenditures	<u>726,901</u>	<u>866,742</u>	<u>860,301</u>	<u>6,441</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(15,835)	(15,835)	(43,445)	(27,610)
Adjustments to prior year encumbrances	<u>0</u>	<u>0</u>	<u>1,088</u>	<u>1,088</u>
Excess of revenue collected over (under) expenditures	(15,835)	(15,835)	(42,357)	(26,522)
Cash fund balance, beginning of year	<u>15,835</u>	<u>15,835</u>	<u>15,835</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>(26,522)</u>	<u>(26,522)</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 20,776	20,776	21,539	763
State sources			6	6
Total revenues collected	<u>20,776</u>	<u>20,776</u>	<u>21,545</u>	<u>769</u>
Expenditures:				
Other uses	<u>40,100</u>	<u>40,100</u>	<u>21,224</u>	<u>18,876</u>
Total expenditures	<u>40,100</u>	<u>40,100</u>	<u>21,224</u>	<u>18,876</u>
Excess of revenue collected over (under) expenditures	(19,324)	(19,324)	321	19,645
Cash fund balances, beginning of year	<u>19,324</u>	<u>19,324</u>	<u>19,324</u>	<u>0</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>19,645</u>	<u>19,645</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 54,329	53,718	(611)
State sources		15	15
Total revenues	<u>54,329</u>	<u>53,733</u>	<u>(596)</u>
Requirements:			
Bonds	46,500	46,500	
Coupons	<u>9,479</u>	<u>9,479</u>	
Total expenditures	<u>55,979</u>	<u>55,979</u>	<u>0</u>
Excess of revenues collected over (under) expenditures	(1,650)	(2,246)	(596)
Cash fund balance, beginning of year	<u>1,650</u>	<u>1,650</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>(596)</u>	<u>(596)</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Boynton-Moton Public Schools Independent District No. I-4 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. 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 composed of elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District’s reporting entity.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

**B. Fund Accounting**

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed 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 financial resources.

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

**Governmental Fund Types**

Governmental funds are used to account for all or most of a government’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).

General Fund – The general fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program. 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 includes federal and state restricted monies that must be expended for specific programs.

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds. The District did not maintain a child nutrition or co-op fund during the 2010-11 school year.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

B. Fund Accounting - cont'd

Co-op Fund – The co-op fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school districts. The expenditures for this fund consist of those necessary to operate and maintain the joint programs.

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 various nutrition programs provided to students.

Debt Service Fund – The debt service fund is the District's sinking fund and is used to account for the accumulation of financial resources for the payment of general long-term (including judgments) debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

Capital Projects Fund – The capital projects fund is the District's bond fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities and acquiring transportation equipment.

**Fiduciary Fund Types**

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. The terms "non-expendable" and "expendable" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District maintained a gift fund during the 2010-11 school year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private



INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

**B. Fund Accounting – cont’d**

organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

Medical Insurance Fund – The medical insurance fund accounts for revenues and expenditures for all types of self-funded medical insurance coverage.

Workers Compensation Fund – The workers compensation fund accounts for revenues and expenditures for workers compensation claims.

Insurance Recovery Fund – The insurance recovery fund accounts for all types of insurance recoveries, major reimbursements and reserves for property repairs and replacements.

Agency Fund – The agency fund is the school activities fund which is used to account for monies collected principally through the fundraising efforts of students and District-sponsored groups. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds.

**Account Groups**

An account group is not a fund and consists of a self-balancing set of accounts used only to establish accounting control over long-term debt and fixed assets.

General Long-Term Debt Account Group – This account group is established to account for all the long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for other liabilities (judgments and lease purchases) which are to be paid from funds provided in future years.

General Fixed Assets Account Group – This account group is used by governments to account for the property, plant and equipment of the school district. The District does not have the information necessary to include this group in its financial statements.

**Memorandum Only - Total Column**

The total column on the combined financial statements – regulatory basis is captioned “memorandum only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reports in the combined financial statements – regulatory basis. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and expendable trust funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned. Under the regulatory basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from generally accepted accounting principles. Significant differences are as follows:

The District does not maintain its accounts on the modified accrual basis of accounting under which revenues are recorded when susceptible to accrual, i.e., both measurable and available, and expenditures are recorded when the liability is incurred, if measurable.

Revenues and expenditures are reported by the budget year until all encumbrances have been paid and unexpended appropriations are closed to the current year fund balance.

The general, building and child nutrition funds record purchases of supplies as expenditures rather than as assets to be expensed when used.

Encumbrances are reported as liabilities. Under generally accepted accounting principles, open encumbrances for which goods or services have not been received are reported as reservations of fund balances, since the commitments will be honored through subsequent year's budget appropriations.

The District has not maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by generally accepted accounting principles, is not included in the combined financial statements – regulatory basis.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is not reported as an expenditure and a fund liability of the governmental fund that will pay it. In addition, the non-current portion of vested accumulated vacation is not recorded in the general long-term debt account group.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

C. Basis of Accounting – cont'd

Capital leases are recorded as expenditures. Under generally accepted accounting principles, capital leases are normally capitalized as a fixed asset and recorded in the general long-term debt account group. The District has no capital leases.

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures.

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. Unencumbered appropriations lapse at the end of each fiscal year.

E. Assets, Liabilities and Fund Equity

Cash – Cash consists of cash on hand, demand deposit accounts, and interest bearing checking accounts.

Investments – The District is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

E. Assets, Liabilities and Fund Equity – cont'd

Inventories – The value of consumable inventories at June 30, 2011, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is not presented.

Warrants Payable – Warrants are issued to meet the obligations for goods and services provided to the District. The District recognizes a liability for the amount of outstanding warrants that have yet to be redeemed by the District's treasurer.

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting.

Unmatured Obligations – The unmatured obligations represent the total of all annual accruals for both principal and interest, based on the lengths of the bonds and/or judgments, less all principal and interest payments through the balance sheet date in accordance with the regulatory basis of accounting.

Funds Held for School Organizations – Funds held for school organizations represent the funds received or collected from students or other cocurricular and extracurricular activities conducted in the District, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

Cash Fund Balance – Cash fund balance represents the funds not encumbered by purchase orders, legal contracts, outstanding warrants and unmatured obligations.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures**

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. 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. These property taxes are distributed to the District's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. 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 in a timely manner, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1, of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of 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.

Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

Intermediate Revenues - Revenues from intermediate sources are the amounts 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 are collected within such systems.

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, 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 from or additions to the revenue of the year when the adjustment is made.

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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures – cont'd**

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.

The aforementioned state revenues are apportioned to the District's general fund.

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 passthrough from another government, such as the state.

An entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes.

The majority of the 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.

Interest Earnings – Represent compensation for the use of financial sources over a period of time.

Non-Revenue Receipts – Non-revenue receipts represent receipts deposited into a fund that are not new revenues to the District, but the return of assets.

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving cocurricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures – cont'd**

objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

Operation of Non-Instructional Services Expenditures – Activities concerned with providing non-instructional services to students, staff or the community.

Facilities Acquisition and Construction Services Expenditures – Consist of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvements to sites.

Other Outlays Expenditures – A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest).

Other Uses Expenditures – This includes scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditures for self-funded employee benefit programs administered either by the District or a third party administrator.

Repayment Expenditures – Repayment expenditures represent checks/warrants issued to outside agencies for refund or restricted revenue previously received for overpayment, non-qualified expenditures and other refunds to be repaid from District funds.

Interfund Transactions – Quasi-external 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.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2010-11 fiscal year.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

## **2. CASH AND INVESTMENTS**

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks, and trust companies; and warrants, bonds or judgments of the District.

Cash – The District's bank balance of deposits at June 30, 2011, was \$109,974. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2011, the District's had no outstanding investments.

*Interest rate risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Due to the required liquidity for those investments, these funds have no defined maturity dates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

*Credit risk – Investments* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Investments held by the District in investment pools (sweep accounts) are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The District does not have a formal policy limiting its exposure arising from concentration of investments.

## **3. INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund receivables or payables at June 30, 2011.

## **4. GENERAL 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 can be 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 of the date of issue. General long-term debt of the District consists of building bonds payable and a capital lease. Debt service requirements for bonds are payable solely from the fund balance and the future revenues of the debt service fund.



INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**4. GENERAL LONG-TERM DEBT – cont'd**

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2011:

	Bonds Payable
Balance, July 1, 2010	\$ 195,000
Additions	-
Retirements	(50,000)
Balance, June 30, 2011	<u>\$ 145,000</u>

A brief description of the outstanding long-term debt at June 30, 2011, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2002, original issue \$335,000, variable interest rates, due in annual installments of \$35,000, and final payment of \$55,000 due 6-01-12	\$ 55,000
Building Bonds, Series 2007, original issue \$130,000, interest rate of 5.00%, due in annual installments of \$15,000, final payment due 5-1-12	<u>90,000</u>
Totals	<u>\$ 145,000</u>

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**4. GENERAL LONG-TERM DEBT – cont'd**

The annual debt service requirements for the retirement of the building bonds, including the payment of principal and interest, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 70,000	4,527	74,527
2013	15,000	3,750	18,750
2014	15,000	3,000	18,000
2015	15,000	2,250	17,250
2016	15,000	1,500	16,500
2017	15,000	750	15,750
Total	\$ 145,000	15,777	160,777

Interest paid on general long-term debt incurred during the 2010-11 fiscal year totaled \$9,715.

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is 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 Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. 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

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd**

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 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. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2010-11 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement 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.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2011. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

Annual Pension Cost

This information was not available for audit.

**6. 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 risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**6. RISK MANAGEMENT – cont'd**

The District 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 School 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 it 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 school'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 its loss fund in three years, it is returned to the District with no interest.

The District is also a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

**7. CONTINGENCIES**

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District.

**8. SUBSEQUENT EVENTS**

A subsequent event is an event occurring after the date of the financial statements but before the audit report is issued that may have an effect on the financial statements.

School Annexation

During the 2010-11 fiscal year, the Boynton-Moton Public School Board of Education was subject to a mandatory annexation. Per an annexation agreement, assets and liabilities will be split fifty-fifty (50%/50%) between Haskell Public School District and Midway Public School District, effective July 1, 2011.

INDEPENDENT SCHOOL DISTRICT NO. I-4, MUSKOGEE COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011

State of Oklahoma            )  
  ) ss  
County of Tulsa            )

The undersigned auditing firm of lawful ages, 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 Boynton-Moton Public Schools for the audit year 2010-11.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP  
Auditing Firm

By \_\_\_\_\_  
Authorized Agent

Subscribed and sworn to before me  
This 17th day of April, 2012

\_\_\_\_\_  
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2012  
Commission No. 00008621