

**FINANCIAL STATEMENTS - REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITORS'**

**CHELSEA SCHOOL DISTRICT NO. 1-3,
Rogers County, Oklahoma**

JUNE 30, 2015

Audited by

**WILSON, DOTSON & ASSOCIATES, P.L.L.C.
SHAWNEE, OK**

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015**

BOARD OF EDUCATION

President	Jay McAlister
Vice-President	Lori Milam
Clerk	John Lockhart
Member	Bucky Hefner
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SCHOOL DISTRICT TREASURER

Quintin Draeger

SUPERINTENDENT

Richard McSpadden

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

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WILSON, DOTSON & ASSOCIATES, P.L.L.C.

Certified Public Accountants

Members

American Institute of Certified Public Accountants

Oklahoma Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Education
Chelsea School District Number I-3
Rogers County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Chelsea School District No. I-3, Rogers County, Oklahoma (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's regulatory financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Oklahoma State Department of Education. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the District on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Oklahoma State Department of Education.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2015, or the changes in its financial position, for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and fund balances arising from regulatory basis transactions of each fund type and account group of the District as of June 30, 2015, and the revenues collected, expenditures paid and encumbered, and budgetary results, for the year ended on the regulatory basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s combined financial statements. The combining statements-regulatory basis, are presented for purposes of additional analysis and are not a required part of the combined financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the combined financial statements.

The combining statements-regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements-regulatory basis and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the combined financial statements as a whole on the regulatory basis of accounting described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2016, 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 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* in considering the District's internal control over financial reporting and compliance.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
March 11, 2016

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - REGULATORY BASIS
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2015

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>							
Cash	\$ 344,095	113,976	48,929	516,335	87,982	-	1,111,317
Amounts available in debt service	-	-	-	-	-	516,335	516,335
Amounts to be provided for retirement of general long-term debt	-	-	-	-	-	3,179,024	3,179,024
Total Assets	\$ 344,095	113,976	48,929	516,335	87,982	3,695,359	4,806,676
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities							
Warrants payable	\$ 116,269	1,764	-	-	-	-	118,033
Encumbrances	78,229	23,149	-	-	-	-	101,378
Funds held for school organizations	-	-	-	-	87,982	-	87,982
Long-term debt:							
Bonds payable	-	-	-	-	-	1,805,000	1,805,000
Capital leases payable	-	-	-	-	-	1,890,359	1,890,359
Total liabilities	194,498	24,913	-	-	87,982	3,695,359	4,002,752
Fund Balances							
Restricted	-	89,063	48,929	516,335	-	-	654,327
Unassigned	149,597	-	-	-	-	-	149,597
Total fund balances	149,597	89,063	48,929	516,335	-	-	803,924
Total Liabilities and Fund Balances	\$ 344,095	113,976	48,929	516,335	87,982	3,695,359	4,806,676

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES
AND CHANGES IN FUND BALANCES - REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2015**

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
Revenues collected:					
Local sources	\$ 1,014,322	197,982	-	494,000	1,706,304
Intermediate sources	216,892	-	-	-	216,892
State sources	4,489,521	6,415	-	2	4,495,938
Federal sources	814,962	334,663	-	6,547	1,156,172
Non-revenue receipts	176,486	-	67,478	104,586	348,550
Total revenues collected	<u>6,712,183</u>	<u>539,060</u>	<u>67,478</u>	<u>605,135</u>	<u>7,923,856</u>
Expenditures:					
Instruction	4,017,561	-	-	-	4,017,561
Support services	2,378,651	160,837	-	-	2,539,488
Operation of non-instruction services	123,917	422,868	-	-	546,785
Facilities acquisition & construction services	-	440	947,713	-	948,153
Other outlays	176,849	274	-	558,722	735,845
Total expenditures	<u>6,696,978</u>	<u>584,419</u>	<u>947,713</u>	<u>558,722</u>	<u>8,787,832</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	15,205	(45,359)	(880,235)	46,413	(863,976)
Adjustments to prior year encumbrances	25,764	-	-	-	25,764
Other financing sources (uses)					
Bond sales proceeds	-	-	875,000	-	875,000
Excess of revenues collected over (under) expenditures and other financing sources (uses)	40,969	(45,359)	(5,235)	46,413	36,788
Fund balances, beginning of year	<u>108,628</u>	<u>134,422</u>	<u>54,164</u>	<u>469,922</u>	<u>767,136</u>
Fund balances, end of year	<u>\$ 149,597</u>	<u>89,063</u>	<u>48,929</u>	<u>516,335</u>	<u>803,924</u>

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

**COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - REGULATORY BASIS - GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2015**

	<u>GENERAL FUND</u>			<u>SPECIAL REVENUE FUNDS</u>			<u>SINKING FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Revenues collected:									
Local sources	\$ 794,920	1,002,799	1,014,322	162,370	171,909	197,982	460,406	460,406	494,000
Intermediate sources	193,274	214,609	216,892	-	-	-	-	-	-
State sources	4,503,343	4,484,297	4,489,521	6,281	6,414	6,415	-	-	2
Federal sources	466,761	888,713	814,962	293,152	332,940	334,663	-	-	6,547
Non-revenue receipts	-	176,349	176,486	-	-	-	-	-	104,586
Total revenues collected	<u>5,958,298</u>	<u>6,766,767</u>	<u>6,712,183</u>	<u>461,803</u>	<u>511,263</u>	<u>539,060</u>	<u>460,406</u>	<u>460,406</u>	<u>605,135</u>
Expenditures:									
Instruction	3,187,242	3,995,711	4,017,561	-	-	-	-	-	-
Support services	2,503,753	2,503,753	2,378,651	211,699	216,820	160,837	-	-	-
Operation of non-instruction services	125,283	125,283	123,917	382,752	427,091	422,868	-	-	-
Facilities acquisition & construction services	1,000	1,000	-	1,000	1,000	440	-	-	-
Other outlays	243,648	243,648	176,849	274	274	274	454,883	454,883	558,722
Other uses	6,000	6,000	-	-	-	-	-	-	-
Repayments	-	-	-	500	500	-	-	-	-
Total expenditures	<u>6,066,926</u>	<u>6,875,395</u>	<u>6,696,978</u>	<u>596,225</u>	<u>645,685</u>	<u>584,419</u>	<u>454,883</u>	<u>454,883</u>	<u>558,722</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(108,628)	(108,628)	15,205	(134,422)	(134,422)	(45,359)	5,523	5,523	46,413
Adjustments to prior year encumbrances	-	-	25,764	-	-	-	-	-	-
Excess of revenues collected over (under) expenditures	(108,628)	(108,628)	40,969	(134,422)	(134,422)	(45,359)	5,523	5,523	46,413
Fund balances, beginning of year	<u>108,628</u>	<u>108,628</u>	<u>108,628</u>	<u>134,422</u>	<u>134,422</u>	<u>134,422</u>	<u>469,922</u>	<u>469,922</u>	<u>469,922</u>
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>149,597</u>	<u>-</u>	<u>-</u>	<u>89,063</u>	<u>475,445</u>	<u>475,445</u>	<u>516,335</u>

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the CHELSEA School District Number I-3, CHELSEA, Rogers County, Oklahoma (the "District") conform to the regulatory basis of accounting, which is an other comprehensive basis of accounting prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The District's accounting policies are described in the following notes that are an integral part of the District's financial statements.

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.

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 evaluation 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. The District has various supporting groups. However, the District does not appoint any of the board members or exercise any oversight authority over these groups and the dollar amounts are not material to the District.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus

The accounts of the District are organized and operate 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. The account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in other funds.

The District has the following fund types and account groups:

Governmental funds – are used to account for most of the District's general activities and general long-term debt account group, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. All revenues from all sources, including property taxes, entitlements, grants, and shared revenues are recognized when they are received rather than earned.

Expenditures are generally recognized when encumbered or reserved rather than at the time the related liability is incurred. Unmatured interest for debt service is recognized when due and certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Fiduciary type funds are accounted for using the cash basis of accounting. These practices differ from generally accepted accounting principles.

Governmental funds include the following fund types:

General fund – is the general operating fund of the District. It accounts for all financial resources of the general government, 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. Project accounting is employed to maintain integrity for the various sources of these funds.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

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 and Child Nutrition Fund. These are budgeted funds and any fund balances are considered as resources available for use.

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.

Child Nutrition Fund – The Child Nutrition Fund consists of monies derived from local food sales and federal and state financial assistance. This fund is used to account for the various nutrition programs provided to students. The District's Child Nutrition Fund is currently maintaining a balance in excess of three months expenditures, based on the previous year, normally allowed by the State Department of Education. The District is holding these funds to purchase equipment, etc. for a new cafeteria area at the high school. A waiver for the maintenance of these excess funds will be obtained from the State Department of Education.

Capital Projects fund – consists of the District's Bond Funds and accounts for the proceeds of bonds sales used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, and the acquisition of transportation equipment.

Debt Service fund – consists of the District's Sinking Fund and accounts for the accumulation of financial resources for servicing of general long-term debt (principal, interest and related costs). This is a budgeted fund. The primary revenue sources are local property taxes levied specifically for debt service.

Fiduciary funds – account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Agency fund – is custodial in nature and does not present results of operations or has a measurement focus. Agency funds are accounted for using the cash basis of accounting. This fund is the School Activities Fund used to account for monies collected principally through fundraising efforts of the students and District-sponsored groups. This is an unbudgeted fund. The administration is responsible

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

under the authority of the Board, of 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.

Account Groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over general fixed assets and long-term debt.

General Long-Term Debt Account Group – is used to account for the outstanding principal balances of all 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.

C. Basis of Accounting and Presentation

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-Management's Discussion and Analysis for State and Local Governments* with certain modifications. This format differs significantly from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the financial statements.
- Compensated absences are recorded as an expenditure and liability when the obligation is paid.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require 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.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Fund Balances, 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 School 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.

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 the regulatory basis of accounting 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

Inventories consist of minimal amounts of expendable supplies held for consumption. The value of consumable inventories at year-end is not material to the District's financial statements. The cost of inventories are recorded as expenditures when encumbered and purchased rather than when consumed.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Fund Balances, Revenue and Expenditures – cont'd

6. Fixed Assets

The regulatory basis of accounting prescribed by the Oklahoma State Board of Education requires the presentation of fixed assets. The District has not maintained a record of its fixed assets, and, accordingly, a statement of fixed assets required by generally accepted accounting principles prior to the issuance of GASB No. 34, is not included in the financial statements. Fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

7. Compensated Absences

The District provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. District policy allows certified employees to accumulate such days to a maximum number of days. None of the benefits are payable upon retirement or death. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

8. Long-term Obligations

The District reports long-term debt at face value in the general long-term debt account group. Certain other lease obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

9. Fund Balance Classifications

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 upon 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 note receivables, 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.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Fund Balances, Revenue and Expenditures – cont'd

Restricted Fund Balance – The fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – The fund balance should be reported as committed for amounts that are useable 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 the limitation by taking action similar to that which imposed the commitment.

Assigned Fund Balance – The fund balance should be reported as assigned for 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 include 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 purposes in accordance with the provisions of the standard.

Unassigned Fund Balance – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

10. 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

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Fund Balances, Revenue and Expenditures – cont'd

10. Property Taxes and Other Local Revenues – cont'd

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.

11. 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.

12. State Revenues

Revenues from state sources for current operations are primarily governed by 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 or additions of 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 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.

13. 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 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.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Fund Balances, Revenue and Expenditures – cont'd

14. Non-Monetary Transactions

The District receives commodities from the U. S. Department of Agriculture. The value of these commodities has been included in the Schedule of Expenditures of Federal Awards; however, they have not been reflected in the combined financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

15. Memorandum Only – Total Columns

Total columns on the combined financial statements are captioned “memorandum only” because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position or results of operations in accordance with generally accepted accounting principles. Inter-fund eliminations have not been made in the aggregation of this data.

16. Resource Use Policy

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required by state law to prepare an annual budget. A preliminary budget is submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. The electors of the District have voted on the question to make the ad valorem levy for emergency levy and local support levy permanent; therefore, an annual mileage election (normally the first Tuesday in February) is not necessary. Under current Oklahoma Statutes, a formal Estimate of Needs (Budget) is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. The annual Estimate of Needs, when approved by the Board and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, were made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – cont'd

Budgetary Information – cont'd

The 2014-15 Estimate of Needs was amended by the following supplemental appropriations:

Fund	Supplemental Appropriations	Original Appropriations	Final Appropriations
General	\$ 808,469	6,066,926	6,875,395
Building	5,121	165,973	171,094
Child Nutrition	44,339	430,252	474,591

These amendments were approved by the Rogers County Clerk and Rogers County Excise Board.

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.

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

Exposure to custodial credit risk related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name.

The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state, municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

A. Deposits and Investments – cont'd

At June 30, 2015 the District held deposits of approximately \$1,130,429 at financial institutions. The District's cash deposits, including interest-bearing accounts, and investments are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name. Therefore, the District was not exposed to custodial credit risk as defined above.

Investment Credit Risk

The District has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. government, its agencies and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies.
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States government.
4. Repurchase agreements that have underlying collateral including obligations of the United States government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school district debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school district.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no formal policy limiting investments based on credit rating. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The District had no investment credit risk as of June 30, 2015, as defined above.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

A. Deposits and Investments – cont'd

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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. The District had no investment interest rate risk as defined above.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District places no limit on the amount it may invest in any one issuer.

At June 30, 2015, the District had no concentration of credit risk as defined above.

B. 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 also has capital lease agreements.

On July 1, 2010, the District issued building bonds in the amount of \$375,000 with interest rates ranging from 1.50% to 2.70%. Bond maturities began July 1, 2012, with an initial installment of \$90,000, and increments of \$95,000 thereafter, with the final maturity of \$95,000 due July 1, 2015;

On July 1, 2011, the District issued building bonds in the amount of \$500,000 with interest rates of 2.00%. Bond maturities began July 1, 2013, with installments of \$165,000 per year, the final maturity of \$170,000 is due July 1, 2015;

On July 1, 2012, the District issued combined purpose bonds in the amount of \$560,000 with interest rates ranging from .75% to .90%. Bond maturities began July 1, 2014, with installments of \$140,000 per year, the final maturity of \$140,000 is due July 1, 2017;

On July 1, 2013, the District issued building bonds in the amount of \$245,000 with interest rates ranging from .60% to 1.80%. Bond maturities begin July 1, 2015, with installments of \$60,000 per year, the final maturity of \$65,000 is due July 1, 2018;

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

B. Long-term Debt – cont'd

On July 1, 2014, the District issued building bonds in the amount of \$875,000 with interest rates ranging from .70% to 1.70%. Bond maturities begin July 1, 2016, with an initial installment of \$215,000, installments of \$220,000 per year thereafter, with the final maturity of \$220,000 due July 1, 2019;

On May 31, 2011, the District entered into a lease-purchase agreement for a building. The lease-purchase is in the amount of \$1,900,000, has an interest rate of 7.28%, and is due in yearly principal and interest installments of varying amounts beginning August 15, 2012;

On May 31, 2011, the District entered into a lease-purchase agreement for a building. The lease-purchase is in the amount of \$1,292,000, has an interest rate of 5.20%, and is due in yearly principal and interest installments of varying amounts beginning August 15, 2012.

Annual debt service requirements to maturity are as follows:

Year Ended June 30,	General Obligation Bonds		Total Requirements
	Principal	Interest	
2016	\$ 616,394	130,743	747,137
2017	781,387	112,696	894,083
2018	719,967	88,147	808,114
2019	1,036,101	68,225	1,104,326
2020	541,510	19,755	561,265
Total	<u>\$ 3,695,359</u>	<u>419,566</u>	<u>4,114,925</u>

Interest paid on general long-term debt during the current year totaled \$189,153.

C. Changes in General Long-term Debt

General long-term debt consists of general obligation bonds payable. The following is a summary of the changes in the general long-term debt transactions of the District for the fiscal year:

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

3. DETAILED NOTES CONCERNING THE FUNDS – cont’d

C. Changes in General Long-term Debt – cont’d

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Bonds	\$ 1,365,000	875,000	435,000	1,805,000
Capital Leases	<u>2,668,802</u>	<u>-</u>	<u>778,443</u>	<u>1,890,359</u>
Total	<u>\$ 4,033,802</u>	<u>875,000</u>	<u>1,213,443</u>	<u>3,695,359</u>

4. 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 is a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of their 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 their account they would be liable for the excess.

The School participates in a risk pool for Worker’s 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 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 schools 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.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

4. OTHER INFORMATION – cont'd

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 \$27,371.

D. 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 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.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

4. OTHER INFORMATION – cont'd

D. Retirement System and Plan – cont'd

The non-funded pension benefit obligation of the System, as determined as part of the latest actuarial valuation dated June 30, 2015, is as follows:

Actuarial Accrued Liability	\$ 20,692,630,888
Actuarial Value of Assets	<u>13,771,884,292</u>
Unfunded Actuarial Accrued Liability	<u>\$ 6,920,746,596</u>

Funding Policy

The District, the State of Oklahoma, and the participating employees 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 7.00% of covered compensation. Additionally, OTRS receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. The matching contribution rate was 8.25%. Contributions received by the System from the State of Oklahoma are from 5.00% of its revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. The District's employer contribution rate was 9.50%. The District is allowed by the Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members.

Annual Pension Cost

The District's total contributions for 2015, 2014, and 2013 were \$607,353, \$667,399 and \$654,654, respectively.

E. Surety Bonds

The treasurer is bonded by Western Surety Company, bond number 70111441 for the penal sum of \$200,000, term beginning June 2, 2015 and ending June 2, 2016. This is a renewal of a continuous bond.

The activity fund custodian, minutes clerk and encumbrance clerk are bonded by Western Surety Company, bond number 1500060 for the penal sum of \$1,000, each, terms beginning September 8, 2014 and ending September 8, 2015. This is a renewal of a continuous bond.

The superintendent is bonded by Western Surety Company, bond number 70750967 for the penal sum of \$100,000, term beginning July 1, 2014 and ending July 1, 2015. This is a renewal of a continuous bond.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2015**

4. OTHER INFORMATION – cont'd

F. Subsequent Events

Subsequent events have been evaluated through March 11, 2016, which is the date the financial statements were available to be issued.

The District sold \$220,000 in Building Bonds on May 27, 2015. These bonds were part of an issue that was approved by the voters of the District on February 8, 2011. The bonds will be dated July 1, 2015.

The board of education has approved a special election to be held on April 5, 2016 to vote on \$250,000 in bonds. The proceeds from the sale of these bonds would be used to renovate/repair existing school buildings to include, but not be limited to, roof repairs, and acquire additional classroom instructional equipment.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - REGULATORY BASIS
ALL SPECIAL REVENUE FUNDS
JUNE 30, 2015**

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 31,576	82,400	113,976
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Warrants payable	\$ 345	1,419	1,764
Encumbrances	<u>6,802</u>	<u>16,347</u>	<u>23,149</u>
Total liabilities	<u>7,147</u>	<u>17,766</u>	<u>24,913</u>
Fund balances			
Restricted	<u>24,429</u>	<u>64,634</u>	<u>89,063</u>
 Total Liabilities and Fund Balances	 <u>\$ 31,576</u>	 <u>82,400</u>	 <u>113,976</u>

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN FUND
BALANCES - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
Revenues collected:			
Local sources	\$ 131,662	66,320	197,982
State sources	1	6,414	6,415
Federal sources	<u>1,723</u>	<u>332,940</u>	<u>334,663</u>
Total revenues collected	<u>133,386</u>	<u>405,674</u>	<u>539,060</u>
Expenditures:			
Support services	160,837	-	160,837
Operation of non-instruction services	-	422,868	422,868
Facilities acquisition & construction services	440	-	440
Other outlays	<u>-</u>	<u>274</u>	<u>274</u>
Total expenditures	<u>161,277</u>	<u>423,142</u>	<u>584,419</u>
Excess of revenues collected over (under) expenditures	(27,891)	(17,468)	(45,359)
Fund balances, beginning of year	<u>52,320</u>	<u>82,102</u>	<u>134,422</u>
Fund balances, end of year	<u>\$ 24,429</u>	<u>64,634</u>	<u>89,063</u>

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

**COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BUILDING FUND</u>			<u>CHILD NUTRITION FUND</u>			<u>TOTALS</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Revenues collected:									
Local sources	\$ 113,653	118,774	131,662	48,717	53,135	66,320	162,370	171,909	197,982
State sources	-	-	1	6,281	6,414	6,414	6,281	6,414	6,415
Federal sources	-	-	1,723	293,152	332,940	332,940	293,152	332,940	334,663
Total revenues collected	<u>113,653</u>	<u>118,774</u>	<u>133,386</u>	<u>348,150</u>	<u>392,489</u>	<u>405,674</u>	<u>461,803</u>	<u>511,263</u>	<u>539,060</u>
Expenditures:									
Support services	164,973	170,094	160,837	46,726	46,726	-	211,699	216,820	160,837
Operation of non-instruction services	-	-	-	382,752	427,091	422,868	382,752	427,091	422,868
Facilities acquisition & construction services	1,000	1,000	440	-	-	-	1,000	1,000	440
Other outlays	-	-	-	274	274	274	274	274	274
Repayments	-	-	-	500	500	-	500	500	-
Total expenditures	<u>165,973</u>	<u>171,094</u>	<u>161,277</u>	<u>430,252</u>	<u>474,591</u>	<u>423,142</u>	<u>596,225</u>	<u>645,685</u>	<u>584,419</u>
Excess of revenues collected over (under) expenditures	(52,320)	(52,320)	(27,891)	(82,102)	(82,102)	(17,468)	(134,422)	(134,422)	(45,359)
Fund balances, beginning of year	<u>52,320</u>	<u>52,320</u>	<u>52,320</u>	<u>82,102</u>	<u>82,102</u>	<u>82,102</u>	<u>134,422</u>	<u>134,422</u>	<u>134,422</u>
Fund balances, end of year	<u>\$ -</u>	<u>-</u>	<u>24,429</u>	<u>-</u>	<u>-</u>	<u>64,634</u>	<u>-</u>	<u>-</u>	<u>89,063</u>

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

COMBINING STATEMENT OF ASSETS AND LIABILITIES - REGULATORY BASIS
ALL FIDUCIARY FUND TYPES
JUNE 30, 2015

	<u>AGENCY FUND ACTIVITY FUND</u>
<u>ASSETS</u>	
Cash	<u>\$ 87,982</u>
 <u>LIABILITIES</u>	
Liabilities	
Funds held for school organizations	<u>\$ 87,982</u>

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
REGULATORY BASIS - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>ASSETS</u>	<u>BALANCE</u> 7-01-14	<u>ADDITIONS</u>	<u>ADJUST./</u> <u>TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6-30-15
Cash	\$ 86,635	370,575	-	369,228	87,982
 <u>LIABILITIES</u>					
Funds held for school organizations:					
General Activity	\$ 3,001	12,035	(1,929)	10,143	2,964
Petty Cash	-	500	-	500	-
General Fund Reimbursement	-	20	-	20	-
Banquet	123	-	-	-	123
Athletics	11,378	39,295	-	48,850	1,823
Concession	-	9,800	(5,787)	4,013	-
GT (1-12)	1,063	2,382	1,264	2,957	1,752
Special Olympics	281	1,823	-	1,269	835
Donations-Scholarships	-	2,000	-	1,500	500
Art Goad Intermediate	4,577	26,130	480	27,184	4,003
Art Goad Library	2,238	8,510	-	8,839	1,909
Pre-K Snacks	-	340	-	338	2
Kindergarden Snacks I	29	360	-	382	7
Art Goad Science Club	18	-	-	-	18
Middle School Activity	1,022	2,892	-	3,788	126
Middle School Cheerleaders	1,925	1,356	(385)	2,338	558
Graphic Club	397	74	-	129	342
High School Activity	4,677	28,387	1,322	28,149	6,237
HS/MS Library	111	1,854	-	1,654	311
Paula Love Memorial	31	-	-	-	31
Class of 2017	1,660	219	49	124	1,804
Class of 2014	919	-	(870)	-	49
Class of 2015	1,165	685	(354)	1,094	402
Class of 2016	696	6,788	119	3,856	3,747
National Honor Society	85	2,080	-	1,988	177
Student Council	4,058	5,054	-	6,136	2,976
Annual	685	8,237	-	8,872	50
Dragon Tales	481	-	-	-	481
Band	374	3,575	-	3,376	573
FFA	8,197	79,622	-	80,815	7,004
Chorus	-	-	200	-	200
FACS Special Projects	826	8,365	-	7,836	1,355

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
REGULATORY BASIS - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BALANCE</u> <u>7-01-14</u>	<u>ADDITIONS</u>	<u>ADJUST./</u> <u>TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6-30-15</u>
Funds held for school organizations (cont'd):					
BPA	\$ 864	11,174	(195)	11,132	711
Speech & Drama	137	-	-	-	137
Foreign Language Club	311	98	-	136	273
Varsity Cheerleaders	1,890	8,305	385	5,732	4,848
NASA	-	500	-	-	500
All Sports Booster Club	7,880	11,923	5,913	18,781	6,935
Band Boosters	1,300	1,052	750	1,727	1,375
PTO	3,406	15,018	(550)	11,130	6,744
Vocal Music Outreach	2,733	1,160	(70)	1,059	2,764
FCA	3,453	6,818	(2,041)	4,760	3,470
FFA Booster Club	70	1,798	-	1,566	302
Rupert Cross Scholarship	227	875	-	500	602
Football	2,730	5,928	16	4,302	4,372
Boys Basketball	1,551	3,227	1,568	4,710	1,636
Girls Basketball	2,853	9,831	(9)	10,576	2,099
Softball	1,206	10,737	(768)	9,458	1,717
Baseball	1,090	4,270	488	4,012	1,836
Boys Track	2,862	7,387	52	6,112	4,189
Girls Track	2,055	8,077	352	7,371	3,113
Letter Jacket Resale	-	10,014	-	10,014	-
TOTAL LIABILITIES	\$ 86,635	370,575	-	369,228	87,982

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Approved Amount</u>	<u>Balance at July 1, 2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance at June 30, 2015</u>
<u>U.S. Department of Education:</u>							
<u>Direct Programs:</u>							
Title VIII Impact Aid *	84.041	591	\$ -		130,260	118,406	11,854
Title VIII Impact Aid *	84.041	592			11,865	8,473	3,392
Title VIII Impact Aid 2013-14 carryover *	84.041	592		3,392	-	3,392	-
Title VIIA, Indian education	84.060A	561	109,453	-	83,636	109,453	-
Sub Total			<u>109,453</u>	<u>3,392</u>	<u>225,761</u>	<u>239,724</u>	<u>15,246</u>
<u>Passed Through State Department of Education:</u>							
Title I *	84.010	511	266,928	-	250,042	250,042	16,886
Title I 2013-14 - Note 1	84.010	799	-	-	399	-	-
Title I School Improvement *	84.010	515	29,656	-	-	4,993	24,663
Title I School Improvement 2013-14 - Note 1	84.010	799	-	-	5,703	-	-
Title I Neglected *	84.010	518	8,595	-	5,216	5,383	3,212
Title I Neglected 2013-14 - Note 1	84.010	799	-	-	3,360	-	-
Title IIA, Teacher and Principal Training/Recruiting *	84.367	541	28,428	-	2,209	2,209	26,219
Title IIA, Teacher and Principal Training/Recruiting 2013-14 - Note 1	84.367	799	-	-	1,136	-	-
Title VIB, REAP	84.358	587	32,185	-	29,216	29,452	2,733
IDEA-B Flow Through *	84.027	621	207,955	-	204,397	204,397	3,558
IDEA-B Preschool *	84.173	641	3,993	-	3,993	3,993	-
Sub Total			<u>577,740</u>	<u>-</u>	<u>505,671</u>	<u>500,469</u>	<u>77,271</u>
<u>Passed Through State Department of Vocational Technical Education:</u>							
Carl Perkins grant	84.048	421	24,973	-	24,973	24,973	-
Carl Perkins grant 2013-14 - Note 1	84.048	799	-	-	27,558	-	-
Sub Total			<u>24,973</u>	<u>-</u>	<u>52,531</u>	<u>24,973</u>	<u>-</u>
<u>Department of Health and Human Services:</u>							
<u>Passed Through State Department of Human Services:</u>							
Rehabilitation Services	84.126	456			8,228	8,228	

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Approved Amount</u>	<u>Balance at July 1, 2014</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance at June 30, 2015</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Human Services:</u>							
National school lunch program	10.555	763	\$ -		243,417	179,215	64,202
National school lunch program 2013-14 carryover	10.555	763		109,270	-	109,270	-
National school lunch program - commodities - Note 2	10.555				27,371	27,371	-
School breakfast program	10.553	764			89,523	71,065	18,458
School breakfast program 2013-14 carryover	10.553	764		11,906	-	11,906	-
Sub Total				<u>121,176</u>	<u>360,311</u>	<u>398,827</u>	<u>82,660</u>
<u>Other Federal Assistance</u>							
Flood Control	12.112	770			712	712	
In Lieu of Tax Public Housing		770			20,318	12,048	8,270
<u>Passed Through the Muscogee (Creek) Nation:</u>							
Johnson O'Malley	15.130	563	14,310	-	7,298	10,011	4,299
Johnson O'Malley 2013-14 - Note 1	15.130	799	-	-	2,713	-	-
Sub Total			<u>14,310</u>	<u>-</u>	<u>31,041</u>	<u>22,771</u>	<u>12,569</u>
Total Expenditures of Federal Awards - Note 3			<u>\$ 726,476</u>	<u>124,568</u>	<u>1,183,543</u>	<u>1,194,992</u>	<u>187,746</u>

Note 1: These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

Note 2: This amount represents federal non-cash assistance received in the form of commodities.

Note 3: Total revenue includes \$27,371 in non-cash assistance.

* Major program

WILSON, DOTSON & ASSOCIATES, P.L.L.C.

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INDEPENDENT AUDITORS' 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
Chelsea School District Number I-3
Rogers County, Oklahoma

We have audited, 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, the fund type and account group financial statements, regulatory basis, of the Chelsea School District No. I-3, Rogers County, Oklahoma (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's combined financial statements, and have issued our report thereon dated March 11, 2016. The report on these financial statements was adverse because the District has elected to prepare its financial statements on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to the omission of the general fixed asset account group.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
March 11, 2016

WILSON, DOTSON & ASSOCIATES, P.L.L.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Honorable Board of Education
Chelsea School District Number I-3
Rogers County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Chelsea School District No. I-3, Chelsea, Rogers County, Oklahoma's (the "District'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 the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 District'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
March 11, 2016

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Adverse
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
• Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported

Type of auditors’ report issued on compliance for major programs:	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.041	Title VIII Impact Aid
84.010	Title I, Title I School Improvement, and Title I Neglected
84.367	Title IIA, Principal and Teacher Training
84.027	IDEA-B Flow Through
84.173	IDEA-B Preschool

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530?	No
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**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

Section II – Financial Statement Findings

There were no material weaknesses or instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs, or material weakness or reportable conditions in internal control that are required to be reported.

**CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no prior year audit findings.

CHELSEA SCHOOL DISTRICT NO. I-3
Rogers County, Oklahoma

SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT
FOR THE YEAR ENDING JUNE 30, 2015

State of Oklahoma)
)ss
County of Pottawatomie)

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 Chelsea Public Schools for the audit year 2014-15.

Wilson, Dotson & Associates, P.L.L.C.
Auditing Firm

Pamela R. Dotson

by _____
Authorized Agent

Subscribed and sworn to before me this 11th day of March, 2016.

Lisa Cook

Notary Public (Commission # 11002236)
My Commission Expires March 10, 2019

