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

**COALGATE INDEPENDENT SCHOOL DISTRICT NO. I-1,
COAL COUNTY, OKLAHOMA**

JUNE 30, 2011

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
JUNE 30, 2011

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JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Coalgate School District No. I-1
Coalgate, Oklahoma

We have audited the accompanying fund type and account group financial statements of Coalgate School District No. I-1 (the District), Coal 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements – regulatory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements – regulatory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement – regulatory basis presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States, although not reasonably determinable, are presumed to be material.

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

In our opinion, because the District's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, and because of the omission of the general fixed assets account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph do not present fairly, the financial position of the District as of June 30, 2011, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

However, in our opinion, except for the omission of the general fixed assets account group as discussed in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of the District as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements within the combined financial statements. The combining fund statements and schedules and other schedules as listed in the table of contents under other supplementary information are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the combined financial statements – regulatory basis of the District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements – regulatory basis. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements – regulatory basis and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements – regulatory basis taken as a whole.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 21, 2011



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STANDARDS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Education
Coalgate School District No. I-1
Coalgate, Oklahoma

We have audited the combined financial statements – regulatory basis of Coalgate School District (the District) No. I-1, Coalgate, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial matters that we reported to management of the District in a separate letter dated November 21, 2011.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 21, 2011



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

The Honorable Board of Education
Coalgate School District No. I-1
Coalgate, Oklahoma

Compliance

We have audited Coalgate School District (the District) No. I-1, Coalgate, Oklahoma's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board, management, the Oklahoma State Department of Education and the Federal Clearinghouse, and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 21, 2011

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL
INSTANCES OF NON-COMPLIANCE
JUNE 30, 2011

There were no prior year reportable conditions.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Section 1 - Summary of Auditor's Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.
4. The audit disclosed no significant deficiencies in the internal controls over major programs.
5. An unqualified opinion report was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major were the Title I Program (84.010, 84.389), the Child Nutrition Program (10.553, 10.555, 10.559), and the State Fiscal Stabilization Funds (84.394, 84.397) which were clustered in determination, and Education JOBS Fund (84.410) which was not clustered.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The auditee was determined not to be a low-risk auditee.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

Section 3 – Findings and questioned costs for federal awards:

NONE

COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL 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 (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	EXPENDABLE TRUST AND AGENCY FUNDS	GENERAL	LONG-TERM DEBT		
<u>ASSETS</u>								
Cash	\$ 2,619,181	797,110	141,259	74,728				3,632,278
Investments	385,619			20,000				405,619
Amounts available in debt service						892		892
Amount to be provided for retirement of long-term debt						754,721		754,721
Total Assets	\$ 3,004,800	797,110	141,259	94,728	755,613			4,793,510

LIABILITIES AND FUND EQUITY

Liabilities:								
Warrants payable	\$ 728,296	22,218						750,514
Encumbrances	204,910							204,910
Funds held for school organizations				73,385				73,385
Unmatured obligations			140,367					140,367
Long-term debt:								
Bonds payable					520,000			520,000
Capital leases					235,613			235,613
Total liabilities	933,206	22,218	140,367	73,385	755,613			1,924,789
Fund Equity								
Cash fund balances	2,071,594	774,892	892	21,343		0		2,868,721
Total Liabilities and Fund Equity	\$ 3,004,800	797,110	141,259	94,728	755,613			4,793,510

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

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES EXPENDABLE TRUST FUNDS	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE		
Revenues Collected:					
Local sources	\$ 2,509,157	413,247	146,283		3,068,687
Intermediate sources	233,017				233,017
State sources	3,172,070	5,695			3,177,765
Federal sources	1,068,252	269,688			1,337,940
Interest earnings	6,789			300	7,089
Total revenues collected	<u>6,989,285</u>	<u>688,630</u>	<u>146,283</u>	<u>300</u>	<u>7,824,498</u>
Expenditures:					
Instruction	3,937,730			300	3,938,030
Support services	2,609,996	86,278			2,696,274
Operation of non-instructional services	12,073	337,638			349,711
Facilities acquisition & construction services	95,000	32,784			127,784
Other outlays:					
Debt service requirements			150,735		150,735
Clearing account	43,651				43,651
Correcting entry	7,055				7,055
Total expenditures	<u>6,705,505</u>	<u>456,700</u>	<u>150,735</u>	<u>300</u>	<u>7,313,240</u>
Excess of revenues collected & other financing sources over (under) expenditures before adjustments to prior year expenditures	283,780	231,930	(4,452)	0	511,258
Adjustments to prior year encumbrances	4,484	0	0	0	4,484
Excess of revenues collected & other financing sources over (under) expenditures	288,264	231,930	(4,452)	0	515,742
Cash fund balances, beginning of year	1,783,330	542,962	5,344	21,343	2,352,979
Cash fund balances, end of year	<u>\$ 2,071,594</u>	<u>774,892</u>	<u>892</u>	<u>21,343</u>	<u>2,868,721</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL 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

	GENERAL FUND			
	Original/Final Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 2,320,999	2,320,999	2,509,157	188,158
Intermediate sources	200,171	200,171	233,017	32,846
State sources	2,587,221	2,587,221	3,172,070	584,849
Federal sources	560,574	560,574	1,068,252	507,678
Interest earnings			6,789	6,789
Total revenues collected	<u>5,668,965</u>	<u>5,668,965</u>	<u>6,989,285</u>	<u>1,320,320</u>
Expenditures:				
Instruction	4,649,488	4,649,488	3,937,730	711,758
Support services	2,735,186	2,735,186	2,609,996	125,190
Operation of non-instructional services	16,915	16,915	12,073	4,842
Facilities acquisition & construction services			95,000	(95,000)
Other outlays				
Clearing account	43,651	43,651	43,651	
Correcting entry	7,055	7,055	7,055	
Total expenditures	<u>7,452,295</u>	<u>7,452,295</u>	<u>6,705,505</u>	<u>746,790</u>
Excess of revenue collected over (under) expenditures before adjustments to prior year expenditures	(1,783,330)	(1,783,330)	283,780	2,067,110
Adjustments to prior year expenditures	<u>0</u>	<u>0</u>	<u>4,484</u>	<u>4,484</u>
Excess of revenue collected over (under) expenditures	(1,783,330)	(1,783,330)	288,264	2,071,594
Cash fund balance, beginning of year	<u>1,783,330</u>	<u>1,783,330</u>	<u>1,783,330</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>2,071,594</u>	<u>2,071,594</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

SPECIAL REVENUE FUNDS				
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 393,503	393,503	413,247	19,744
State sources	5,282	5,282	5,695	413
Federal sources	252,230	252,230	269,688	17,458
Total revenues	651,015	651,015	688,630	37,615
Expenditures:				
Support services	615,910	615,910	86,278	529,632
Operation of non instruction services	328,067	328,067	337,638	(9,571)
Facilities acquisition and construction services	250,000	250,000	32,784	217,216
Total liabilities	1,193,977	1,193,977	456,700	737,277
Excess of revenue collected over (under) expenditures	(542,962)	(542,962)	231,930	774,892
Cash fund balance, beginning of year	542,962	542,962	542,962	0
Cash fund balance, end of year	\$ 0	0	774,892	774,892

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

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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	\$ 145,391	146,283	892
Requirements:			
Bonds	130,000	130,000	
Coupons	20,735	20,735	
Total expenditures	150,735	150,735	0
Excess of revenues collected over (under) expenditures	(5,344)	(4,452)	892
Cash fund balance, beginning of year	5,344	5,344	0
Cash fund balance, end of year	\$ 0	892	892

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

NOTES TO COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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 Coalgate Public Schools Independent District No. I-1 (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-1, COAL 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 the co-op fund during the 2010-11 fiscal 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-1, COAL 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 would 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. The District did not maintain the capital projects fund during the 2010-11 fiscal year.

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 gifts and endowments expendable trust 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-1, COAL 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

Expendable Trust Funds – 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 (judgements 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

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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.

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 and building 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.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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.

Capital leases are recorded as expenditures. Under generally accepted accounting principles, capital leases are normally capitalized as fixed assets and recorded in the general long-term debt account group.

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. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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.

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 Asset 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. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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.

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 - 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 are collected within such systems.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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 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.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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 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 – Consists 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.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL 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

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.

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 and cash pools at June 30, 2011, was \$3,497,821. 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 investments consisted certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$405,619.

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 form increasing interest rates.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

2. CASH AND INVESTMENTS – cont'd

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. These investments are held with Shamrock Bank and First American Bank, and are rated AAA by Standard and Poor's. 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 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 of the date of issue.

The District has entered into lease agreements as lessee for financing the acquisition of land, and equipment. The lease agreements qualify as capital leases for accounting purposes, since title transfers at the end of the lease terms. The leases contain clauses which give the District the ability to terminate the lease agreements at the end of each fiscal year. The land and equipment is collateral for the lease.

General long-term debt of the District consists of building bonds payable and capital leases. 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-1, COAL 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	Capital Leases	Total
Balance, July 1, 2010	\$ 650,000	317,080	967,080
Retirements	(130,000)	(81,467)	(211,467)
Balance, June 30, 2011	<u>\$ 520,000</u>	<u>235,613</u>	<u>755,613</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 2004 original issue \$1,105,000, interest rate of 2.50% to 4.10%, due in annual installments of \$130,000, with an initial payment of \$65,000, final payment due 7-01-14	\$ 520,000
<u>Capital Leases:</u>	
District received funding with 2004 QZAB Bonds, in conjunction with a lease agreement with Oklahoma Public Finance Authority, for \$515, 000, @ 2.26%, due in annual principal and interest installments of \$63,139. Payments are made to a trust account, when the bonds become due, 1-29-14, the trust account will make actual bond payment of \$515,000.	103,000
District received funding with 2004 QZAB Bonds, in conjunction with a lease agreement with Oklahoma Public Finance Authority, for \$250,633, @ 1.94%, due in annual principal and interest installments of \$29,926. Payments are made to a trust account, when the bonds become due, 12-22-15, the trust account will make actual bond payment of \$250,633.	125,317

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

4. GENERAL LONG-TERM DEBT – cont'd

Capital Leases: – cont'd

Lease purchase for yogurt machine, dated 10-10-08, totaling \$19,415 due monthly principal and interest installments of \$487, with final payment due on 10-10-12.	\$ <u>7,296</u>
Total Long-Term Debt	\$ <u>755,613</u>

The annual debt service requirements for the retirement of the general obligation bonds and the capital leases, including the payments of principal and interest, are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 211,948	35,225	247,173
2013	208,475	32,333	240,808
2014	155,063	10,193	165,256
2015	155,063	10,193	165,256
2016	25,064	4,864	29,928
Total	\$ 755,613	92,808	848,421

Interest paid on general long-term debt incurred during the 2010-11 fiscal year totaled \$40,549.

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

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

Description of Plan – cont'd

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. 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 9.9% 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, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the District at 5.12%.

The District's total contributions for 2011, 2010, and 2009, were \$610,148, \$622,841 and \$532,021, respectively.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

Annual Pension Cost

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 for all plan information.

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.

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 District reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to 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.

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

7. CONTINGENCIES

Federal Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, 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.

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District at June 30, 2011.

COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 JUNE 30, 2011

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 762,404	34,706	797,110
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$	22,218	22,218
Fund Equity:			
Cash fund balances	762,404	12,488	774,892
Total Liabilities and Fund Equity	\$ 762,404	34,706	797,110

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

	BUILDING FUND	CHILD NUTRITION FUND	TOTAL
Revenues Collected:			
Local sources	\$ 347,127	66,120	413,247
State sources		5,695	5,695
Federal sources		269,688	269,688
Total revenues collected	<u>347,127</u>	<u>341,503</u>	<u>688,630</u>
Expenditures:			
Support services	86,278		86,278
Operation of non instruction services		337,638	337,638
Facilities acquisition and construction services	32,784		32,784
Total expenditures	<u>119,062</u>	<u>337,638</u>	<u>456,700</u>
Excess of revenues over (under) expenditures	228,065	3,865	231,930
Cash fund balances, beginning of year	<u>534,339</u>	<u>8,623</u>	<u>542,962</u>
Cash fund balances, end of year	<u>\$ 762,404</u>	<u>12,488</u>	<u>774,892</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - BUDGET AND ACTUAL COMPARISON
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

	BUILDING FUND		CHILD NUTRITION FUND	
	ORIGINAL BUDGET	FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET
Revenues Collected:				
Local sources	\$ 331,571	331,571	\$ 61,932	61,932
State sources			5,282	5,282
Federal sources			252,230	252,230
Total revenues collected	<u>331,571</u>	<u>331,571</u>	<u>319,444</u>	<u>319,444</u>
Expenditures:				
Support services	615,910	615,910		
Operation of non-instructional services			328,067	328,067
Facilities acquisition & construction services	250,000	250,000		
Total expenditures	<u>865,910</u>	<u>865,910</u>	<u>328,067</u>	<u>328,067</u>
Excess of revenues collected over (under) expenditures	(534,339)	(534,339)	(8,623)	(8,623)
Cash fund balances, beginning of year	534,339	534,339	8,623	8,623
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>\$ 0</u>	<u>12,488</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL COUNTY
 COMBINING STATEMENT OF ASSETS AND LIABILITIES -
 ALL FIDUCIARY FUND TYPES - REGULATORY BASIS
 JUNE 30, 2011

	EXPENDABLE TRUST FUNDS	AGENCY FUNDS	
	GIFTS AND ENDOWMENTS FUND	SCHOOL ACTIVITY FUNDS	TOTALS
<u>ASSETS</u>			
Cash	\$ 1,343	73,385	74,728
Investments	20,000		20,000
Total Assets	\$ 21,343	73,385	94,728
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Funds held for school organizations	\$	73,385	73,385
Fund Balances:			
Cash fund balance	21,343	0	21,343
Total Liabilities and Fund Balances	\$ 21,343	73,385	94,728

INDEPENDENT SCHOOL DISTRICT NO. 1-1, COAL COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2011

	BALANCE 7-01-10	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-11
<u>ASSETS</u>					
Cash	\$ 106,099	267,964	0	300,678	73,385
 <u>LIABILITIES</u>					
Funds held for school organizations:					
Athletics	\$ 3,070	32,472		29,516	6,026
Basketball	2,078	27,093		26,128	3,043
Band	857	2,721		3,244	334
H.S. Cheerleaders	1,325	12,896		13,398	823
M.S. Cheerleaders	353	3,602		3,571	384
Emerson Elementary	3,310	25,979		27,134	2,155
BPA	625	0		0	625
FCA	301	0		0	301
FCCLA	2,871	8,649		10,325	1,195
Forensics	1,982	1,502		675	2,809
General	2,828	9,187		10,310	1,705
Honor Society	342	275		170	447
Junior Class	683	29,649		29,997	335
M.S. Academics	36	33		0	69
Middle School	2,394	4,200		4,786	1,808
Memorial	100	0		0	100
Petty Cash	0	0		0	0
PTO	1,346	0		0	1,346
Senior Class	127	2,414		518	2,023
Student Council	2,221	467		171	2,517
Vocal Music	2,369	0		0	2,369
Vocational Agriculture	52,454	77,302		105,230	24,526
Yearbook	6,375	7,250		8,263	5,362
Community Education	100	0		0	100
Middle School Student Council	727	68		0	795
Booster Club	1,404	750		2,154	0
Track Club	9,137	11,369		15,602	4,904
Technology Class	220	0		0	220
Band Booster	101	0		0	101
4-H Club	1,787	3,019		805	4,001
Sunshine Club	161	0		161	0
Scholarship Fund	750	0		500	250
High School Activity	1,500	0		0	1,500
Art Club	2,165	4,754		5,992	927
Softball	0	2,313		2,028	285
Total Liabilities	\$ 106,099	267,964	0	300,678	73,385

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/2010	Revenue Collected	Total Expenditures	Balance at 6/30/2011
<u>U.S. Department of Education:</u>							
<u>Direct Programs:</u>							
Title VII - Indian Education	84.060	S060A100105	\$ 68,349		68,349	68,349	
PL 874 Impact Aid Operations	84.041	S041B-2011-3887	83,121		83,121	83,121	
Sub Total			151,470	0	151,470	151,470	0
<u>Passed Through State Department of Education:</u>							
*Title I, Basic	84.010		220,525		211,519	211,519	
Title I, Basic - 2009-10 - Note	84.010			882	882		
*Title I, Basic - ARRA	84.389		52,648		25,984	52,648	26,664
Title I, Basic - ARRA 2009-10 - Note	84.389			29,485	29,485		
*State Fiscal Stabilization Fund	84.394		113,029		113,029	113,029	
*Textbooks - ARRA	84.397		10,621	(10,621)		10,621	
*Education Jobs	84.410		102,475		82,432	102,475	20,043
Title II Part A	84.367		98,474		49,806	49,806	
Title II Part D	84.318		1,303		597	597	
IDEA-B, Flowthrough	84.027		177,495		177,495	177,495	
IDEA-B, Flowthrough - 2009-10 - Note	84.027			10,489	10,489		
IDEA-B, Preschool	84.173		9,781		6,671	9,781	3,110
21 Century Community Learning Centers	84.287		140,000		87,617	110,953	23,336
21 Century Community Learning Centers - Note	84.287			57,622	57,622		
Title VI Part B	84.358		30,962		2,852	20,435	17,583
Title IV Part A	84.186		2,643		2,643	2,643	
Title IV Part A - 2009-10 - Note	84.186			4,149	4,149		
Sub Total			959,956	92,006	863,272	862,002	90,736
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education:</u>							
<u>*Child Nutrition Programs:</u>							
School breakfast program	10.553				67,678	67,678	
National school lunch program	10.555				193,888	193,888	
Summer food service program	10.559					7,546	7,546
Summer food service program - 2009-10 - Note	10.559			8,122	8,122		
Sub Total				8,122	269,688	269,112	7,546
<u>Passed Through Department of Human Services:</u>							
<u>*Non-cash assistance - commodities</u>							
National school lunch program - Note 1	10.555				16,070	16,070	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130		13,390		5,673	7,752	2,079
Johnson O'Malley - 2009-10 - Note	15.130						
Medicaid	93.774		19,180		19,180	19,180	
Rehab Services	84.126		28,657		28,657	28,657	
Sub Total			61,227	0	53,510	55,589	2,079
Total Federal Assistance			\$ 1,172,653	100,128	1,354,010	1,354,243	100,361

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

Note 1 - Commodities received by the District in the amount of \$16,070 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements

* Major program(s)

INDEPENDENT SCHOOL DISTRICT NO. I-1, COAL COUNTY
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
 FOR THE YEAR ENDED JUNE 30, 2011

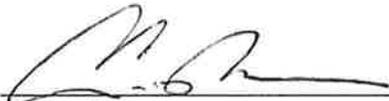
BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
CNA Surety - Western Surety Company	Treasurer	68849579	\$ 175,000	7/01/10 - 7/01/11
	Treasurer	70742841	175,000	7/01/10 - 7/01/11
	Superintendent	70767555	100,000	7/01/10 - 7/01/11
	Treasurer	68849505	1,000	7/01/10 - 7/01/11
	Minutes clerk	68849505	1,000	7/01/10 - 7/01/11
	Encumbrance clerk	68849505	1,000	7/01/10 - 7/01/11
	Activity Fund (3)	68849505	3,000	7/01/10 - 7/01/11
	Asst. Encumbrance clerk	68849505	1,000	7/01/10 - 7/01/11
	Asst. Minutes clerk	68849505	1,000	7/01/10 - 7/01/11
	Lunch Fund Custodian (3)	68849505	3,000	7/01/10 - 7/01/11

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

State of Oklahoma)
) ss
County of Tulsa)

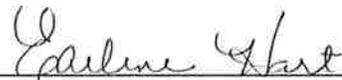
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Coalgate 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 21st day of November, 2011




Notary Public (or Clerk or Judge)

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



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

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November 21, 2011

Mr. Jim Girtten, Superintendent
Coalgate Public Schools
P.O. Box 368
Coalgate, Oklahoma 74358-0368

Dear Mr. Girtten:

Listed below are the audit exceptions and recommendations from the final audit work we performed for you, and are referred to in your audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

The following section contains the exceptions relayed to management that are immaterial instances of noncompliance with laws and regulations and which are not included, but which are referred to, in the audit report.

Expenditures in Excess of Appropriations

We observed during the audit that the child nutrition fund had issued warrants totaling \$337,638.22 at June 30, 2011. However, the appropriation balance for the child nutrition fund at June 30, 2011 was only \$328,067.31. Therefore, expenditures had exceeded appropriations by \$9,570.91 at June 30, 2011. The District had enough collections to cover these expenditures; however, supplemental appropriations should have first been properly approved and added to ensure that the fund was not overspent for the year. We strongly recommend that appropriations be added to any fund that is close to exceeding the lawful appropriation amount prior to that balance being exceeded. It is a violation of state law for any appropriated fund to exceed the approved appropriation balance at any time during the fiscal year.

Purchase Orders

We observed that all purchase orders were dated in a set series of dates (i.e. 7/1/10, 8/1/10, 11/1/10, 2/2/11) but the actual requisitions attached and support indicated that these expenditures were incurred later than the stated encumbrance date. We recommend

Purchase Orders – cont'd

that the purchase orders be dated the actual date the obligation is expensed against available appropriations. Purchase orders should never be back-dated.

Federal Programs

We observed during the audit that the District claimed \$113,029 from the ARRA Stabilization Funds (Project 782), but only \$66,328.05 expenditures were actually coded to this project code. We recommend that actual expenses be coded to every grant to correspond with amounts claimed, even if the program does not require a detailed expenditure claim. This practice will ensure compliance with federal requirements, and assist the district if a federal program audit is ever required. The remaining expenditures had been coded to Project 000, and during our on-site audit this finding was corrected and the expenditures were properly coded to Project 782.

Child Nutrition Program

Of the seventeen (17) free and reduced lunch applications observed, three (3) appeared to not have the proper income designation. Two (2) reduced applications should have been denied and one (1) free application should have been designated as reduced. We recommend that the District review verification efforts to ensure that all applications are properly classified.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,



Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP