

**ANNUAL FINANCIAL REPORT  
KANSAS SCHOOL DISTRICT NO. I-3  
DELAWARE COUNTY, OKLAHOMA  
JULY 1, 2010 TO JUNE 30, 2011**

**AUDITED BY  
KERRY JOHN PATTEN, C.P.A.**

**KANSAS SCHOOL DISTRICT NO.1-3  
DELAWARE COUNTY, OKLAHOMA  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011**

**Board of Education**

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Vice-President	Eldon Brashear
Clerk	Jeremy Russell
Member	Dennis Avery
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**Superintendent of Schools**

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D'Aunn Glass

**KANSAS SCHOOL DISTRICT NO.1-3  
DELAWARE COUNTY, OKLAHOMA  
JUNE 30, 2011**

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**KANSAS SCHOOL DISTRICT NO.1-3  
DELAWARE COUNTY, OKLAHOMA  
JUNE 30, 2011**

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## Independent Auditor's Report

The Honorable Board of Education  
Kansas School District No. I-3  
Delaware County, Oklahoma

I have audited the accompanying fund type and account group financial statements of the Kansas School District No. I-3, Delaware 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 Kansas School District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

As discussed in Note 1 (C), 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 accounting principles generally accepted in the United States of America.

In my opinion, 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 Kansas School District No. I-3, Delaware County, Oklahoma, as of June 30, 2011, and the revenues collected and expenditures paid/expenses for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated January 28, 2012, on my consideration of the Kansas School District's internal control over financial reporting and my 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 my 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 my audit.

My audit was conducted for the purpose of forming an opinion on the combined financial statements of Kansas School District No. I-3. The combining financial statements and supporting schedules are presented for purposes of additional analysis and are not a required part of the combined financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for 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 of Kansas School District No. I-3. The combining financial statements and supporting schedules and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the combined financial statements and, in my opinion, are 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.

This report is intended solely for the information and use of the Board of Education of Kansas School District No. I-3, Delaware County, Oklahoma, Oklahoma State Department of Education, and certain federal regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Kerry John Patten, C.P.A.  
January 28, 2012

**COMBINED FINANCIAL STATEMENTS**

**KANSAS SCHOOL DISTRICT NO. I-3**  
**COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**  
**ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS**  
**JUNE 30, 2011**

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>ASSETS</u>			
Cash	\$ 985,599.73	\$ 46,518.10	\$ 93,736.05
Investments	-	-	-
Amounts available in debt service fund	-	-	-
Amounts to be provided for retirement of general long-term debt	-	-	-
Total assets	<u>\$ 985,599.73</u>	<u>\$ 46,518.10</u>	<u>\$ 93,736.05</u>
<u>LIABILITIES</u>			
Liabilities:			
Outstanding warrants	\$ 234,233.91	\$ 8,485.51	\$ -
Encumbrances	37,544.21	-	-
Long-term debt:			
Bonds payable	-	-	-
Interest payable	-	-	-
Total liabilities	<u>\$ 271,778.12</u>	<u>\$ 8,485.51</u>	<u>\$ -</u>
Fund balances:			
Designated for capital projects	\$ -	\$ -	\$ -
Designated for debt service	-	-	93,736.05
Cash fund balances	713,821.61	38,032.59	-
Total fund balances	<u>\$ 713,821.61</u>	<u>\$ 38,032.59</u>	<u>\$ 93,736.05</u>
Total liabilities and fund balances	<u>\$ 985,599.73</u>	<u>\$ 46,518.10</u>	<u>\$ 93,736.05</u>

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

Governmental Fund Types	Fiduciary Fund Types	Account Groups	Total (Memorandum Only)
Capital Projects	Trust and Agency	General Long-term Debt	June 30, 2011
\$ 205,750.00	\$ 72,112.60	\$ -	\$ 1,403,716.48
-	95,648.23	-	95,648.23
-	-	93,736.05	93,736.05
-	-	646,263.95	646,263.95
<u>\$ 205,750.00</u>	<u>\$ 167,760.83</u>	<u>\$ 740,000.00</u>	<u>\$ 2,239,364.71</u>
\$ -	\$ 3,277.08	\$ -	\$ 245,996.50
-	-	-	37,544.21
-	-	740,000.00	740,000.00
-	-	-	-
<u>\$ -</u>	<u>\$ 3,277.08</u>	<u>\$ 740,000.00</u>	<u>\$ 1,023,540.71</u>
\$ 205,750.00	\$ -	\$ -	\$ 205,750.00
-	-	-	93,736.05
-	164,483.75	-	916,337.95
<u>\$ 205,750.00</u>	<u>\$ 164,483.75</u>	<u>\$ -</u>	<u>\$ 1,215,824.00</u>
<u>\$ 205,750.00</u>	<u>\$ 167,760.83</u>	<u>\$ 740,000.00</u>	<u>\$ 2,239,364.71</u>



**KANSAS SCHOOL DISTRICT NO. I-3**  
**COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID AND**  
**CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Revenues collected:			
Local sources	\$ 597,393.77	\$ 65,824.30	\$ 325,166.42
Intermediate sources	211,640.94	-	-
State sources	4,977,288.55	-	-
Federal sources	1,858,045.27	45,417.58	-
Total revenues collected	<u>\$ 7,644,368.53</u>	<u>\$ 111,241.88</u>	<u>\$ 325,166.42</u>
Expenditures paid:			
Instruction	\$ 4,128,752.26	\$ 66,826.45	\$ -
Support services	2,722,268.53	80,044.62	-
Non-instructional services	432,739.99	-	-
Capital outlay	-	-	-
Other outlays	65,257.64	-	-
Other uses	-	-	-
Debt service:			
Principal retirement	-	-	370,000.00
Interest	-	-	35,702.50
Total expenditures paid	<u>\$ 7,349,018.42</u>	<u>\$ 146,871.07</u>	<u>\$ 405,702.50</u>
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances	<u>\$ 295,350.11</u>	<u>\$ (35,629.19)</u>	<u>\$ (80,536.08)</u>
Adjustments to prior year encumbrances	<u>\$ 40,526.63</u>	<u>\$ 597.77</u>	<u>\$ -</u>
Other financing sources (uses):			
Bond sale proceeds	\$ -	\$ -	\$ -
Operating transfers in/(out)	-	-	-
Bank charges	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of revenue collected over expenditures paid and other financing sources (uses)	<u>\$ 335,876.74</u>	<u>\$ (35,031.42)</u>	<u>\$ (80,536.08)</u>
Fund balances, beginning of year	<u>\$ 377,944.87</u>	<u>\$ 73,064.01</u>	<u>\$ 174,272.13</u>
Fund balances, end of year	<u><u>\$ 713,821.61</u></u>	<u><u>\$ 38,032.59</u></u>	<u><u>\$ 93,736.05</u></u>

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

Governmental Fund Types	Total (Memorandum Only)
Capital Projects	June 30, 2011
\$ -	\$ 988,384.49
-	211,640.94
-	4,977,288.55
-	1,903,462.85
<u>\$ -</u>	<u>\$ 8,080,776.83</u>
 \$ -	 \$ 4,195,578.71
-	2,802,313.15
-	432,739.99
9,250.00	9,250.00
-	65,257.64
-	-
-	370,000.00
-	35,702.50
<u>\$ 9,250.00</u>	<u>\$ 7,910,841.99</u>
 \$ (9,250.00)	 \$ 169,934.84
<u>\$ -</u>	<u>\$ 41,124.40</u>
 \$ 215,000.00	 \$ 215,000.00
-	-
-	-
<u>\$ 215,000.00</u>	<u>\$ 215,000.00</u>
 \$ 205,750.00	 \$ 426,059.24
<u>\$ -</u>	<u>\$ 625,281.01</u>
<u><u>\$ 205,750.00</u></u>	<u><u>\$ 1,051,340.25</u></u>

**KANSAS SCHOOL DISTRICT NO. I-3  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund		
	Original Budget	Final Budget	Actual
Revenues collected:			
Local sources	\$ 468,672.55	\$ 713,824.85	\$ 597,393.77
Intermediate sources	182,387.40	211,640.94	211,640.93
State sources	4,790,221.53	4,790,221.43	4,977,288.55
Federal sources	1,354,610.43	1,354,610.43	1,858,045.27
Total revenues collected	\$ 6,795,891.91	\$ 7,041,044.21	\$ 7,644,368.52
Expenditures paid:			
Instruction	\$ 3,953,577.62	\$ 4,198,729.92	\$ 4,128,752.26
Support services	2,722,268.53	2,722,268.53	2,722,268.53
Non-instructional services	432,732.99	432,732.99	432,739.99
Capital outlay	-	-	-
Other outlays	65,257.64	65,257.64	65,257.64
Other uses	-	-	-
Total expenditures paid	\$ 7,173,836.78	\$ 7,418,989.08	\$ 7,349,018.42
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances	\$ (377,944.87)	\$ (377,944.87)	\$ 295,350.11
Adjustments to prior year encumbrances	\$ -	\$ -	\$ 40,526.63
Other financing sources (uses):			
Operating transfers in/out	\$ -	\$ -	\$ -
Bank Charges	-	-	-
Total other financing sources (uses)	\$ -	\$ -	\$ -
Excess (deficiency) of revenue collected over expenditures paid and other financing sources (uses)	\$ (377,944.87)	\$ (377,944.87)	\$ 335,876.74
Cash fund balance beginning of year	\$ 377,944.87	\$ 377,944.87	\$ 377,944.87
Cash fund balance end of year	\$ -	\$ -	\$ 713,821.61

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

Special Revenue Fund

Original Budget	Final Budget	Actual
\$ 60,884.48	\$ 60,884.48	\$ 65,824.30
-	-	-
-	-	-
76,256.34	99,572.17	45,417.58
<u>\$ 137,140.82</u>	<u>\$ 160,456.65</u>	<u>\$ 111,241.88</u>
\$ 41,919.81	\$ 65,235.64	\$ 66,826.45
168,285.02	168,285.02	80,044.62
-	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 210,204.83</u>	<u>\$ 233,520.66</u>	<u>\$ 146,871.07</u>
<u>\$ (73,064.01)</u>	<u>\$ (73,064.01)</u>	<u>\$ (35,629.19)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 597.77</u>
\$ -	\$ -	\$ -
-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (73,064.01)</u>	<u>\$ (73,064.01)</u>	<u>\$ (35,031.42)</u>
<u>\$ 73,064.01</u>	<u>\$ 73,064.01</u>	<u>\$ 73,064.01</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 38,032.59</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**1. Summary of Significant Accounting Policies**

The accompanying financial statements of the Kansas School District No.1-3 (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 the State of Oklahoma. 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. These statements present only the activities of the District.

**B. Measurement Focus**

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 an independent accounting entity with a self-balancing set of accounts. The account groups are financial reporting devices designed to provide accountability for certain assets and liabilities that are not recorded directly in the funds.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types." The District has the following fund types and account groups:

**Governmental Funds**

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 project funds), and the servicing of general long-term debt (debt service funds). 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

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Summary of Significant Accounting Policies (continued)**

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.

**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 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 includes federal and state restricted monies that must be expended for specific programs. The District's cafeteria operations are reported as part of the general fund.

**Special Revenue Fund** – The special revenue funds are used for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**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 technology center property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire and casualty insurance premiums for center facilities, for purchasing security systems, and for paying salaries of security personnel.

**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.

**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 debt principal and interest. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

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

**Fiduciary Funds**

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. When these assets are held under the terms of a trust agreement, trust funds are used for their accounting and reporting. 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 operations.

**Agency Funds**– The agency fund is the school activities fund, which is used to account for monies, collected principally through fundraising efforts of the 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**

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

**General Long-Term Debt Account Group**– This account group was established to account for 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. It is also used to account for liabilities for compensated absences and early retirement incentives, which are to be paid from funds provided in future years.

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

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Summary of Significant Accounting Policies (continued)**

**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*. This format significantly differs from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Compensated absences are recorded as an expenditure and liability when the obligation is paid.
- Inventories of supplies are recorded as expenditures rather than assets.
- A General Fixed Asset Account Group is not required by the State Department of Education's regulatory basis of accounting.

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 and liabilities are incurred for proprietary fund types and trust funds.

**D. Budgets and Budgetary Accounting**

Prior to July 1 each year, the governing board of the school district prepares a verified application showing the needs of the school district and submits the application to the County Excise Board, who makes temporary appropriations for lawful current expenses of the school district. The temporary appropriations are merged with the annual appropriations when the annual budget for the school district is finally approved.

Prior to October 1 each year, the school Board of Education must make a financial statement, showing the true fiscal condition of the school as of the close of the previous fiscal year ended June 30, along with an itemized statement of estimated needs and probable income from all sources for the fiscal year.

A budget is legally adopted by the Board of Education for the general fund and special revenue fund(s) of the school district.

Encumbrances represent commitments 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. Under Oklahoma Law, unencumbered appropriations lapse at the end of the year.

**E. Assets, Liabilities and Fund Equity**

**Memorandum Only – Total Column**

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

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



**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Summary of Significant Accounting Policies (continued)**

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.

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 costs of inventories are recorded as expenditures when encumbered and purchased, rather than when consumed.

Compensated Absences – Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reported as expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

No liability is recorded for non-vesting accumulating rights to receive such pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group since none of the vested sick leave is expected to be liquidated with expendable, available financial resources.

Fixed Assets – The District has not maintained a record of its general fixed assets, and, accordingly, a General Fixed Asset Account Group is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

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 order, legal contracts, and outstanding warrants.

**F. Revenues, Expenses and Expenditures**

Local Revenues – Revenue from local sources is revenue produced within the school district, which includes ad valorem taxes. It is available for current educational expenses and for other purposes authorized by the school board.

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 prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of the tax 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 year of assessment. If not paid by the following Oct. 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.

Intermediate Revenues – Revenue from intermediate sources is revenue from funds collected by an intermediate administrative unit or political sub-division, such as a county or municipality, and redistributed to the school district.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Summary of Significant Accounting Policies (continued)**

State Revenues – Revenue 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 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. These rules also 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.

Federal Revenues – Revenue from Federal sources is money originating from the Federal government and made available to the school district either as direct grants or under various programs passed-through the State Department of Education.

The Federal government also makes payments to school districts whose revenues are adversely affected by the presence of Federal activities. Although these payments are made in consideration of lost property tax revenue, the Oklahoma State Department of Education advocates classifying such amounts as revenue from Federal sources.

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 co curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Examples of expenditures that might be included here are the activities of teacher assistant 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 objective of instruction, community services and enterprise programs, rather than as entities within them.

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

Facilities Acquisition and Construction Services Expenditures – Consist of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvement 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 overpayments, non-qualified expenditures, and other refunds to be repaid from District funds.

**KANSAS SCHOOL DISTRICT NO. I-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Summary of Significant Accounting Policies (continued)**

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.

**Budgetary Information**

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 included in supporting schedules.

**2. Deposit Categories of Credit Risk**

Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. The District's investment policies are governed by state statute. Permissible investments include:

1. Direct obligations of the United States Government to the payment of which the full faith and credit of the government is pledged.
2. Obligations to the payment of which the full faith and credit of the state is pledged.
3. Certificates of deposits of banks when such certificates of deposits are secured by acceptable collateral as in the deposit of other public monies.
4. Savings accounts or savings certificates of savings and loan associations to the extent that such accounts or certificates are fully insured by the Federal Savings and Loan Insurance Corporation.
5. Repurchase agreements that have underlying collateral consisting of those items specified in paragraphs 1 and 2 of this section including obligations of the United States, its agencies and instrumentalities, and where collateral has been deposited with a trustee of custodian bank in an irrevocable trust or escrow account established for such purposes.
6. County, municipal or school district direct debt obligations for which an ad valorem tax may be levied or bond and revenue anticipation notes, money judgments against such county, municipality or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipality or school district is a beneficiary thereof. All collateral pledged to secure public funds shall be valued at no more than market value.
7. Money market mutual funds regulated by the Securities and Exchange Commission and which investments consist of obligations of the United States, its agencies and instrumentalities, and investments in those items listed above.
8. Warrants, bonds or judgments of the school district.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**2. Deposit Categories of Credit Risk (continued)**

9. Qualified pooled investment programs, the investments of which consist of those items specified above, as well as obligations of the United States agencies and instrumentalities, regardless of the size of the district's budget. To be qualified, a pooled investment program for school funds must be governed through an Interlocal cooperative agreement formed pursuant to Title 70 Section 5-117b, and the program must competitively select its investment advisors and other professionals. Any pooled investment program must be approved by the Board of Education.

**Custodial Credit Risk:**

Deposits and Investments - The District's demand deposits are required by law to be collateralized by the amount that is not federally insured.

Certificates of deposit are collateralized at least by the amount not federally insured. As of June 30, 2011, the District had no deposits exposed to custodial credit risk.

The District's investments during fiscal year 2010-2011 consisted of bank certificate of deposits and certificates of Wal-Mart and Pepsico common stock. The stock certificates are reported in the School District's Fiduciary Fund (student Activity Fund).

**Credit Risk:**

The District has no formal written policy addressing credit risk.

At June 30, 2011, the District has no cash investments that are not guaranteed by the full faith and credit of the United States Government. The value of the stock held is subject to prevailing market and economic conditions.

**3. 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 from the date of issue.

General long-term debt of the District consists of bonds payable. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund.

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

		<u>Bonds Payable</u>
Balance, July 1, 2010	\$	895,000.00
Additions	\$	215,000.00
Retirements	\$	<u>370,000.00</u>
Balance, June 30, 2011	\$	<u>740,000.00</u>

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**General Long-Term Debt (continued)**

A brief description of the outstanding general obligation bond issues at June 30, 2011, is set forth below:

	<u>Amount Outstanding</u>
School District No. 1-3 Building Bonds, Series 2007, original issue \$95,000.00, average interest rate of 4.66%, first installment of \$20,000.00 due on June 1, 2009, and annual installments of \$25,000.00 due thereafter, final payment of \$25,000.00 due on June 1, 2012.	\$ 25,000.00
School District No. 1-3 Building Bonds, Series 2009, original issue \$500,000.00, average interest rate of 2.33%, first installment of \$250,000.00 due on June 1, 2011, and final payment of \$250,000.00 due on June 1, 2012.	250,000.00
School District No. 1-3 Building Bonds, Series 2011, original issue \$215,000.00, average interest rate of 1.150%, first and final payment of \$215,000.00 due on May 1, 2013.	215,000.00
School District No. 1-3 Building Bonds, Series 2009, original issue \$345,000.00, average interest rate of 3.28%, first installment of \$95,000.00 due on July 1, 2011, and annual installment of \$125,000.00 due thereafter final payment of \$125,000.00 due on July 1, 2013.	<u>250,000.00</u>
<b>Total Bonds Outstanding</b>	<b>\$ <u>740,000.00</u></b>

The annual debt service requirements for retirement of bond principal and payment of interest are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 275,000.00	\$ 34,568.75	\$ 309,568.75
2013	340,000.00	7,941.25	347,941.25
2014	<u>125,000.00</u>	<u>1,875.00</u>	<u>126,875.00</u>
<b>Total</b>	<b>\$ <u>740,000.00</u></b>	<b>\$ <u>44,385.00</u></b>	<b>\$ <u>784,385.00</u></b>

Interest expense incurred on general long-term debt during the current year totaled \$35,702.50.

**4. Lease Commitments**

The School District's lease-purchase commitments include property financed through a technique referred to as "conduit financing." Conduit financing involves the use of a public trust, which issues conduit debt obligations (limited-obligations revenue bonds, certificates of participation, or similar debt instruments) for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The public trust has no obligation for such debt beyond the resources provided by a lease or loan with the third party, on whose behalf the debt is issued.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Lease Commitments (continued)**

The School District entered into a Ground Lease Agreement with Delaware County Educational Facilities Authority, a public trust organized under the laws of the State of Oklahoma, for certain real property owned by the District. The term of the Ground Lease extends to September, 2015. The Ground Lease Agreement was made to facilitate the issuance of \$1,860,550.00 in revenue bonds by the Educational Authority to provide funds to construct, equip, and repair school buildings.

The School District entered into a Sublease Agreement with Delaware County Educational Facilities Authority, wherein the real property subject to the Ground Lease mentioned in the previous paragraph is subleased to the school district to enable the District to utilize proceeds of the \$1,860,550.00 revenue bonds issued by Delaware County Educational Facilities Authority, for the construction and improvements on the real property and to provide a method for the District to obtain title to the property and improvements.

The Sublease Agreement expires on June 30, each fiscal year, unless extended. The District has the option to extend sublease terms by affirmative action of the Board of Education.

The District's lease payment schedule is designed to coincide with the Authority's debt service payments on the \$1,860,550.00 bond debt. The school district taxpayers have previously approved a proposition to issue a series of general obligation bonds defining each series by purpose and amount of proceeds that each series will provide (the bonds are to be issued in series so that at no time the total bonds outstanding will exceed the amount allowed under the constitution of Oklahoma). The District is using the proceeds of these general obligation bonds to finance the installments of the lease-purchase obligation.

The schedule of semi-annual rent and lease-purchase payments follows:

Date	Rental Payments	Lease Purchase Payments	Total
9/1/11	\$ 1,500.00	\$ 205,750.00	\$ 207,250.00
3/1/12	1,500.00	-	1,500.00
9/1/12	1,500.00	305,750.00	307,250.00
3/1/13	1,500.00	-	1,500.00
9/1/13	1,500.00	315,750.00	317,250.00
3/1/14	1,500.00	-	1,500.00
9/1/14	1,500.00	325,750.00	327,250.00
3/1/15	1,500.00	-	1,500.00
9/1/15	1,500.00	707,550.00	709,050.00
Total	\$ 13,500.00	\$ 1,860,550.00	\$ 1,874,050.00

The District has additional obligations under certain lease-purchase agreements at June 30, 2011, consisting of buses, gym remodel, and a 2011 Suburban. The following is a schedule of future lease-purchase payments as of June 30, 2011 for these items:

Year ending June 30,	Annual Payments
2012	\$ 167,870.24
2013	127,818.69
2014	11,116.35
Total	\$ 306,805.28

Payments include interest.

The lease payments are appropriated annually from school district funds. No liability is reflected in the financial statements for the above lease commitments.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**5. Employee Retirement System**

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System. The System, which is a cost-sharing multiple-employer public employee retirement system, which is a defined benefit pension plan covering all employees of the public school system. The supervising authority for the management and operation of the System is a 13-member Board of Trustees, which acts as a fiduciary for investment of the funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost of living adjustments, death benefits and other benefits to plan members and beneficiaries. Oklahoma State Statutes establish 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. The report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, Oklahoma 73152.

Basis of Accounting

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements have also been prepared in compliance with the requirements of the Government Accounting Standards Board Statement No. 34. The financial statements are prepared on the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are recognized when due, pursuant to formal commitments. Benefits and refunds are recognized when due and payable.

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 nonfunded pension benefit obligation of the System, as determined as part of the latest actuarial valuation dated June 30, 2011, is as follows:

		<u>Dollars in Millions</u>
Actuarial Accrued Liability	\$	17,561.
Actuarial Value of Assets		<u>9,961.</u>
Unfunded Actuarial Accrued Liability	\$	<u>7,600.</u>

Funding Policy

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two (62) or with reduced benefits as early as age fifty-five (55). The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years of contributory service multiplied by the number of years of credited service. Retiring members may count up to 120 days of unused accumulated sick leave toward an additional year of service credit. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The employers' contribution rate is 9.5%. Employees contribute 7.0% of covered compensation.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Employee Retirement System (continued)**

**Annual Pension Cost**

The District's contribution to the System for the year ending June 30, 2011, was \$382,873.12. The District's total payroll for fiscal year 2010-11 amounted to \$4,348,724.64.

**6. Litigation**

The District is contingently liable for lawsuits and other claims in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would require appropriation of revenues yet to be realized, and would not materially affect the financial position of the District at June 30, 2011.

**7. Contingent Liabilities**

The District receives significant financial assistance from the United States government in the form of grants and other federal assistance. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the District. The District estimates that no material liabilities will result from such audits.

**8. Fiduciary Investments**

Investments in the fiduciary fund types (activity fund) at June 30, 2011, include the following:

Patricia Schwabe Scholarship C.D.	\$ 10,333.54
PepsiCo Stock	24,769.24
Jo & Donice Jones Family C.D.	37,907.81
Wal-Mart Stock	<u>22,637.64</u>
	\$ <u>95,648.23</u>

At June 30, 2011, closing price for PepsiCo stock was \$60.29 per share and Wal-Mart closing price was \$53.14 per share.

**9. 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 School also participates in a risk pool for Workers' Compensation coverage in which there is 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.



**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**10. Surety Bonds**

Statement of Statutory, Fidelity, and Honesty Bond:

<b>Bond Type</b>	<b>Effective Dates</b>	<b>Bond Name</b>		<b>Bond Amount</b>	<b>Bond Number</b>
Treasurer	7/1/10 to 7/1/11	American States Insurance Co.	\$	100,000.00	EX 634356
Encumbrance Clerk/Minutes Clerk	7/1/10 to 7/1/11	American States Insurance Co.	\$	1,000.00	EX 634356
Asst. Encumbrance Clerk	7/1/10 to 7/1/11	American States Insurance Co.	\$	1,000.00	EX 634356
Activity Fund Custodian	7/1/10 to 7/1/11	American States Insurance Co.	\$	1,000.00	EX 634356
Superintendent	3/1/10 to 3/1/11	Burckhalter Insurance Agency	\$	100,000.00	70979463

**11. Deficit Fund Balance**

The School District Coop Special Revenue Fund had a deficit fund balance of \$38,947.63 at June 30, 2011. The deficit fund balance was caused by the normal delay in receipt of Federal Grant reimbursements and is expected to be subsequently cleared. The deficit does not indicate that expenditures in excess of budgeted amounts have been made.

## **COMBINING FINANCIAL STATEMENTS**

**KANSAS SCHOOL DISTRICT NO. I-3**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**  
**ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS**  
**JUNE 30, 2011**

	<u>Building Fund</u>	<u>Coop Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash	\$ 85,252.36	\$ (38,734.26)	\$ 46,518.10
Investments	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 85,252.36</u>	<u>\$ (38,734.26)</u>	<u>\$ 46,518.10</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
Liabilities:			
Outstanding warrants	\$ 8,272.14	\$ 213.37	\$ 8,485.51
Encumbrances	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>\$ 8,272.14</u>	<u>\$ 213.37</u>	<u>\$ 8,485.51</u>
Fund balances	<u>\$ 76,980.22</u>	<u>\$ (38,947.63)</u>	<u>\$ 38,032.59</u>
Total liabilities and fund balances	<u>\$ 85,252.36</u>	<u>\$ (38,734.26)</u>	<u>\$ 46,518.10</u>

**KANSAS SCHOOL DISTRICT NO. 1-3**  
**COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES**  
**PAID AND CHANGES IN FUND BALANCES**  
**ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Building Fund</u>	<u>Coop Fund</u>	<u>Total</u>
Revenues collected:			
Local sources	\$ 65,824.30	\$ -	\$ 65,824.30
Intermediate sources	-	-	-
State sources	-	-	-
Federal sources	-	45,417.58	45,417.58
Total revenue collected	<u>\$ 65,824.30</u>	<u>\$ 45,417.58</u>	<u>\$ 111,241.88</u>
Expenditures paid:			
Instruction	\$ -	\$ 66,826.45	\$ 66,826.45
Support services	78,210.42	1,834.20	80,044.62
Non-instructional services	-	-	-
Capital outlay	-	-	-
Other outlays	-	-	-
Other uses	-	-	-
Total expenditures paid	<u>\$ 78,210.42</u>	<u>\$ 68,660.65</u>	<u>\$ 146,871.07</u>
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances	<u>\$ (12,386.12)</u>	<u>\$ (23,243.07)</u>	<u>\$ (35,629.19)</u>
Adjustments to prior year encumbrances	<u>\$ -</u>	<u>\$ 597.77</u>	<u>\$ 597.77</u>
Other financing sources (uses):			
Bond Sale Proceeds	\$ -	\$ -	\$ -
Operating transfers in/(out)	-	-	-
Bank charges	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (12,386.12)</u>	<u>\$ (22,645.30)</u>	<u>\$ (35,031.42)</u>
Fund balances, beginning of year	<u>\$ 89,366.34</u>	<u>\$ (16,302.33)</u>	<u>\$ 73,064.01</u>
Fund balances, end of year	<u><u>\$ 76,980.22</u></u>	<u><u>\$ (38,947.63)</u></u>	<u><u>\$ 38,032.59</u></u>

**KANSAS SCHOOL DISTRICT NO. I-3  
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES  
CAPITAL PROJECT FUND - REGULATORY BASIS  
JUNE 30, 2011**

Bond Fund 33

ASSETS

Cash	\$ 205,750.00
Investments	-
	<hr/>
Total assets	\$ 205,750.00
	<hr/> <hr/>

LIABILITIES AND FUND BALANCES

Liabilities:

Outstanding warrants	\$ -
Encumbrances	-
	<hr/>
Total liabilities	\$ -
	<hr/> <hr/>

Fund balances:

Designated for capital projects	\$ -
Undesignated	-
	<hr/>
Total fund balances	\$ 205,750.00
	<hr/> <hr/>

Total liabilities and fund balances	\$ 205,750.00
	<hr/> <hr/>

**KANSAS SCHOOL DISTRICT NO. I-3  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
CAPITAL PROJECT FUND - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Bond Fund 33</u>
Revenues collected:	
Local sources	\$ -
Intermediate sources	-
State sources	-
Federal sources	-
	<hr/>
Total revenues collected	\$ -
	<hr/>
Expenditures paid:	
Instruction	\$ -
Support services	-
Non-instructional services	-
Capital outlays	9,250.00
Other outlays	-
Other uses	-
	<hr/>
Total expenditures paid	\$ 9,250.00
	<hr/>
Excess of revenues collected over (under)	
expenditures	\$ (9,250.00)
	<hr/>
Adjustments to prior year encumbrances	\$ -
	<hr/>
Other financing sources (uses):	
Bond sale proceeds	\$ 215,000.00
Operating transfers in/(out)	-
Bank charges	-
	<hr/>
Total other financing sources (uses)	\$ 215,000.00
	<hr/>
Excess revenues and other sources over (under)	
expenditures and other uses	\$ 205,750.00
	<hr/>
Fund balances, beginning of year	\$ -
	<hr/>
Fund balances, end of year	\$ 205,750.00
	<hr/> <hr/>

**KANSAS SCHOOL DISTRICT NO. I-3**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**  
**FIDUCIARY FUND - REGULATORY BASIS**  
**JUNE 30, 2011**

	<u>Agency Fund</u>
	<u>Activity Fund</u>
<u>ASSETS</u>	
Cash	\$ 72,112.60
Investments	95,648.23
Due from other funds	-
	<u>                    </u>
Total assets	\$ <u><u>167,760.83</u></u>
<u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Outstanding warrants	\$ 3,277.08
Due to other funds	-
	<u>                    </u>
Total liabilities	\$ <u><u>3,277.08</u></u>
Fund balances:	
Unreserved/undesignated	\$ <u><u>164,483.75</u></u>
Total liabilities and fund balances	\$ <u><u>167,760.83</u></u>

## **SUPPORTING SCHEDULES**



**KANSAS SCHOOL DISTRICT NO. 1-3**  
**BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS**  
**BUILDING FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Fund balances, beginning of year	\$ 89,366.34	\$ 89,366.34	\$ 89,366.34	\$ -
Revenues collected:				
Local sources	\$ 60,884.48	\$ 60,884.48	\$ 65,824.30	\$ 4,939.82
Intermediate sources	-	-	-	-
State sources	-	-	-	-
Federal sources	-	-	-	-
Total revenues collected	\$ 60,884.48	\$ 60,884.48	\$ 65,824.30	\$ 4,939.82
Expenditures paid:				
Instruction	\$ -	\$ -	\$ -	\$ -
Support services	150,250.82	150,250.82	78,210.42	72,040.40
Non-instructional services	-	-	-	-
Capital outlay	-	-	-	-
Other outlays	-	-	-	-
Other uses	-	-	-	-
Total expenditures paid	\$ 150,250.82	\$ 150,250.82	\$ 78,210.42	\$ 72,040.40
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances	\$ -	\$ -	\$ 76,980.22	\$ 76,980.22
Adjustments to prior year encumbrances			-	
Other financing sources (uses):				
Operating transfers in/out			\$ -	
Bank charges			-	
Total other financing sources (uses)			\$ -	
Cash fund balance end of year			\$ 76,980.22	

**KANSAS SCHOOL DISTRICT NO. 1-3**  
**BUDGETARY COMPARISON SCHEDULE - REGULATORY BASIS**  
**COOP FUND**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Fund balances, beginning of year	\$ (16,302.33)	\$ (16,302.33)	\$ (16,302.33)	\$ -
Revenues collected:				
Local sources	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-
State sources	-	-	-	-
Federal sources	76,256.34	99,572.17	45,417.58	(54,154.59)
Total revenues collected	<u>\$ 76,256.34</u>	<u>\$ 99,572.17</u>	<u>\$ 45,417.58</u>	<u>\$ (54,154.59)</u>
Expenditures paid:				
Instruction	\$ 41,919.81	\$ 65,235.64	\$ 66,826.45	\$ (1,590.81)
Support services	18,034.20	18,034.20	1,834.20	16,200.00
Non-instructional services	-	-	-	-
Capital outlay	-	-	-	-
Other outlays	-	-	-	-
Other uses	-	-	-	-
Total expenditures paid	<u>\$ 59,954.01</u>	<u>\$ 83,269.84</u>	<u>\$ 68,660.65</u>	<u>\$ 14,609.19</u>
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,545.40)</u>	<u>\$ (39,545.40)</u>
Adjustments to prior year encumbrances			<u>597.77</u>	
Other financing sources (uses):				
Operating transfers in/out			\$ -	
Bank charges			-	
Total other financing sources (uses)			<u>\$ -</u>	
Cash fund balance end of year			<u>\$ (38,947.63)</u>	

**KANSAS SCHOOL DISTRICT NO. I-3  
SCHEDULE OF FEDERAL AWARDS EXPENDED  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Grantor's Number
<u>U.S. Department of Education</u>		
Direct Programs:		
<u>2010-2011 Programs</u>		
Title VIII, Impact Aid Operations	84.041	S041B20114012
Safe & Drug Free (PEP)	84.215F	Q215F090683-10
Title VII, Indian Education	84.060A	S060A100966
Sub-Total		
Passed-Through State Department of Education:		
<u>2009-2010 Programs</u>		
Title I, Basic	84.010	N/A
Title II, Part A Training & Recruiting	84.367	N/A
Title II, Part D Education Through Technology	84.318X	N/A
ARRA IDEA-B Flow Through	84.391A	N/A
IDEA-B Preschool	84.173	N/A
Title VI Rural Education	84.358	N/A
Title III A English Lang. Acq	84.365	N/A
Sub-Total		
<u>2010-2011 Programs</u>		
Title I	84.010	N/A
ARRA-Title I	84.389	N/A
IDEA-B Flow Through	84.027	N/A
ARRA IDEA-B Flow Through	84.391A	N/A
IDEA-B Preschool	84.173	N/A
* ARRA Education Stabilization Fund	84.394	N/A
Title II, Part A Training & Recruiting Fund	84.367	N/A
Title II, Part D, Education Through Technology	84.318X	N/A
Title III-Immigrant Education Act	84.365	N/A
Title VI B Rural and Low Income	84.358	N/A
* Education Jobs Fund	84.410	N/A
Title IV, Drug Free Schools	84.186	N/A
Sub-Total		

The accompanying notes are an integral part of this schedule  
continued

Balance at July 1, 2010	Receipts	Expenditures	Balance at June 30, 2011
\$ 14,409.00	\$ 227,391.46	\$ 168,817.91	\$ 72,982.55
-	112,573.38	112,573.38	-
-	118,867.00	118,867.00	-
\$ 14,409.00	\$ 458,831.84	\$ 400,258.29	\$ 72,982.55
\$ (4,596.16)	\$ 4,596.16	\$ -	\$ -
(690.85)	690.85	-	-
(1,893.56)	1,893.56	-	-
(318.00)	318.00	-	-
(2,323.00)	2,323.00	-	-
(19,904.20)	19,904.20	-	-
(5,437.26)	5,437.26	-	-
\$ (35,163.03)	\$ 35,163.03	\$ -	\$ -
\$ -	\$ 276,685.00	\$ 285,706.49	\$ (9,021.49)
-	51,817.34	51,817.34	-
-	206,680.42	206,680.42	-
-	17,335.67	28,764.01	(11,428.34)
-	4,623.66	4,623.66	-
-	221,984.00	221,984.00	-
-	58,163.62	61,089.89	(2,926.27)
-	40.00	1,970.87	(1,930.87)
-	14,261.56	14,261.56	-
-	373.00	24,721.58	(24,348.58)
-	165,714.55	185,380.00	(19,665.45)
-	3,193.70	3,193.70	-
\$ -	\$ 1,020,872.52	\$ 1,090,193.52	\$ (69,321.00)

**KANSAS SCHOOL DISTRICT NO. I-3  
SCHEDULE OF FEDERAL AWARDS EXPENDED  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grantor's Number</u>
Passed-Through State Department of Career and Technology Education:		
<u>2009-2010 Programs</u>		
Carl Perkins	84.048	N/A
Sub-Total		
<u>2010-2011 Programs</u>		
Carl Perkins	84.048	N/A
Sub-Total		
Passed-Through State Department of Rehabilitation Services:		
<u>2010-2011 Programs</u>		
Rehabilitation Services	84.126	N/A
Sub- Total		
<u>U. S. Department of Agriculture</u>		
Passed-Through State Department of Education:		
Child Nutrition Cluster:		
Non-Cash Assistance (Commodities):		
* National School Lunch Program	10.555	N/A
Non-Cash Assistance Sub-Total		
Cash Assistance:		
* School Breakfast Program	10.553	N/A
* National School Lunch Program	10.555	N/A
Cash Assistance Sub- Total		
Sub- Total for Child Nutrition Cluster		

The accompanying notes are an integral part of this schedule  
continued

Balance at July 1, 2010	Receipts	Expenditures	Balance at June 30, 2011
<u>\$ (21,171.83)</u>	<u>\$ 21,171.83</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (21,171.83)</u>	<u>\$ 21,171.83</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 4,546.93</u>	<u>\$ 54,399.09</u>	<u>\$ (49,852.16)</u>
<u>\$ -</u>	<u>\$ 4,546.93</u>	<u>\$ 54,399.09</u>	<u>\$ (49,852.16)</u>
<u>\$ -</u>	<u>\$ 10,353.00</u>	<u>\$ 10,353.00</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 10,353.00</u>	<u>\$ 10,353.00</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 19,264.57</u>	<u>\$ 19,264.57</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 19,264.57</u>	<u>\$ 19,264.57</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 93,561.30</u>	<u>\$ 93,561.30</u>	<u>\$ -</u>
<u>\$ -</u>	<u>213,103.10</u>	<u>213,103.10</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 306,664.40</u>	<u>\$ 306,664.40</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ 325,928.97</u>	<u>\$ 325,928.97</u>	<u>\$ -</u>

**KANSAS SCHOOL DISTRICT NO. I-3  
SCHEDULE OF FEDERAL AWARDS EXPENDED  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grantor's Number</u>
<u>U.S. Department of Health and Human Services</u>		
Passed- Through Oklahoma Health		
Care Authority:		
Medicaid Assistance Program	93.778	N/A
Sub- Total		

TOTAL FEDERAL ASSISTANCE

\* Major program

The accompanying notes are an integral part of this schedule

<u>Balance at July 1, 2010</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance at June 30, 2011</u>
\$ -	\$ 45,859.30	41,265.75	\$ 4,593.55
\$ -	\$ 45,859.30	\$ 41,265.75	\$ 4,593.55
\$ (41,925.86)	\$ 1,922,727.42	\$ 1,922,398.62	\$ (41,597.06)



**KANSAS SCHOOL DISTRICT NO. I-3  
DELAWARE COUNTY, OKLAHOMA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

1. For all federal programs, the District uses the fund types prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. General and Coop Funds are used to account for resources restricted, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in the General and Coop Funds.
2. The accounting and financial reporting treatment applied to a fund is determined by its' measurement focus. The Governmental Fund types are accounted for using a current financial measurement focus. All federal grant funds were accounted for in the General and Coop Funds, which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The Regulatory Basis of Accounting is used for the Governmental Fund types and Agency funds. This basis of accounting recognizes revenue from all sources when they are received. Federal grant funds are considered to be recognized when encumbered or reserved to the extent of expenditures made under the provisions of the grant.

3. Positive amounts listed in the either "Balance at July 1, 2010" or "Balance at June 30, 2011" column represent funds received by the school and not yet expended or coded to the program. Negative amounts represent expenditures which have been claimed, but the revenue not yet collected.
4. The District received donated foods through the Federal Food Distribution Program (10.550). At June 30, 2011, the school maintained an immaterial amount of food commodities inventory. Per the Regulatory Basis of Accounting, the commodities received and used are not recognized as revenue or expenditures in the school's Financial Statements.
5. Reconciliation of the Revenue shown on the *Schedule of Expenditures of Federal Awards* to Statement of Revenue, Expenditures and Changes in Fund Balance is as follows:

	Revenue
Schedule of Expenditures of Federal Awards	\$ 1,922,727.42
Less Commodities (non-cash assistance)	<u>(19,264.57)</u>
Total per Schedule of Expenditures of Federal Awards	
Reconciled Balance	\$ <u><u>1,903,462.85</u></u>
Federal Program Revenues:	
General Fund	\$ 1,858,045.27
Coop Fund	<u>45,417.58</u>
Total per Federal Statement of Revenue, Expenditures, And Changes in Fund Balance	\$ <u><u>1,903,462.85</u></u>

**KANSAS SCHOOL DISTRICT NO. I-3**  
**SCHOOL ACTIVITY FUND**  
**RECEIPTS, TRANSFERS, DISBURSEMENTS AND SUB-ACCOUNT BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Activities	Balance 7-1-10	Deposited	Net Transfers/ Adjustments	Disbursed	Balance 6-30-11
Child Nutrition Program	\$ -	\$ 34,670.52	\$ -	\$ 34,670.52	\$ -
All Sports	15,077.74	105,562.66	-	113,173.55	7,466.85
Annual/Yearbook	114.81	11,597.00	-	11,361.40	350.41
Petty Cash	-	354.35	-	354.35	-
Band	5,295.69	11,087.99	-	13,834.59	2,549.09
Beta Club	1,635.99	4,159.75	-	4,254.69	1,541.05
Jr. High Cheer	2,408.28	4,626.00	-	4,770.20	2,264.08
Kansas Chronicals	237.98	7,574.00	-	7,104.58	707.40
Connession	-	12,067.75	-	12,067.75	-
Flower Fund	1,424.26	2,306.00	-	2,673.67	1,056.59
B.P.A.	1,605.20	2,243.75	-	2,604.56	1,244.39
F.F.A.	2,899.62	45,107.78	-	37,973.40	10,034.00
F.C.C.L.A.	1,044.02	7,677.85	-	7,861.11	860.76
Miscellaneous	8,942.59	32,232.09	-	35,589.34	5,585.34
H.S. Library	1,849.70	3,670.10	-	3,911.10	1,608.70
Indian Club	40.14	2,612.26	-	1,985.60	666.80
Jr. Class	1,258.26	15,981.46	-	16,008.31	1,231.41
Now Account Interest	89.95	48.76	-	-	138.71
Sr. Class	1,319.84	15,933.19	-	13,825.62	3,427.41
Asian Club	585.00	453.00	-	1,019.70	18.30
Stuco	1,969.16	3,021.48	-	2,600.94	2,389.70
Patricia Schwabe	-	500.00	-	500.00	-
P Schwabe CD	10,269.15	64.39	-	-	10,333.54
Pepsico Stock	20,856.71	3,912.53	-	-	24,769.24
Walmart	373.83	2,159.82	-	-	2,533.65
Walmart Stock	20,477.82	-	-	-	20,477.82
Elem Gifted	2,807.22	5,009.70	-	5,292.42	2,524.50
Elem Activity	7,895.11	12,147.95	-	15,563.59	4,479.47
Elem Computer Account	3,513.90	460.02	-	1,213.85	2,760.07
Elem Library	81.44	7,346.15	-	7,240.70	186.89
Special Services Ed	6,613.17	7,966.79	-	7,850.21	6,729.75
Sr. High Cheer	3,451.14	7,409.50	-	8,138.19	2,722.45
Drama Club	8.90	-	-	8.90	-
Middle School	-	872.00	-	393.58	478.42
Hanna Scholarship	-	1,000.00	-	1,000.00	-
Gunn Mootz	-	250.00	-	250.00	-
Special Services Olympic	2,725.01	6,558.50	-	4,544.36	4,739.15
Jo & Donice Jones Family	-	700.00	-	-	700.00
Jo & Donice Jones Family CD	37,843.62	64.19	-	-	37,907.81
<b>Total Activities</b>	<b>\$ 164,715.25</b>	<b>\$ 379,409.28</b>	<b>\$ -</b>	<b>\$ 379,640.78</b>	<b>\$ 164,483.75</b>

**REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

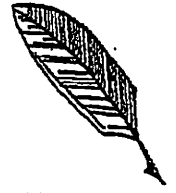
# KERRY JOHN PATTEN, C.P.A.

2101 N. Willow Ave.

Broken Arrow, OK 74012

Phone Number (918) 250-8838

FAX Number (918) 250-9853



## INDEPENDENT AUDITOR'S 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  
Kansas School District No. 1-3  
Delaware County, Oklahoma

I have audited the combined financial statements – regulatory basis of Kansas School District No. 1-3 (the "District"), Kansas, Oklahoma, as of and for the year ended June 30, 2011, which have been prepared on a basis prescribed by the laws of the state of Oklahoma and have issued my report thereon dated January 28, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing my audit, I considered Kansas School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kansas School District's internal control over financial reporting. Accordingly, I 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 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.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

### Compliance and Other Matters

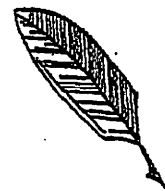
As part of obtaining reasonable assurance about whether Kansas School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. I noted certain immaterial instances of noncompliance that I have reported to management in the Schedule of Comments included on pages 34-35 of this audit report.

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

Kerry John Patten, C.P.A.  
January 28, 2012

# KERRY JOHN PATTEN, C.P.A.

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Broken Arrow, OK 74012  
Phone Number (918) 250-8838  
FAX Number (918) 250-9853



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

The Honorable Board of Education  
Kansas School District No. 1-3  
Delaware County, Oklahoma

### Compliance

I have audited the compliance of Kansas School District 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 Kansas School District's major federal programs for the year ended June 30, 2011. Kansas School District's major federal programs are identified in the Summary of Audit 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 Kansas School District's management. My responsibility is to express an opinion on Kansas School District's compliance based on my audit.

I conducted my 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 I 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 Kansas School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Kansas School District's compliance with those requirements.

In my opinion, Kansas School District 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.

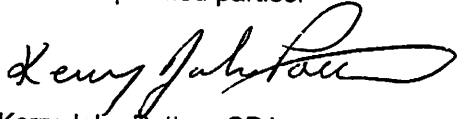
### Internal Control over Compliance

The management of Kansas School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Kansas School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the entity'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.

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

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

A handwritten signature in black ink, appearing to read "Kerry John Patten", with a stylized, flowing script.

Kerry John Patten, CPA  
January 28, 2012

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the combined financial statements of Kansas School District, as to the regulatory basis of accounting.
2. There were no audit findings reported of deficiencies in internal control, which the auditor considers to be "significant deficiencies" as defined in A.I.C.P.A. standards.
3. No instances of noncompliance material to the financial statements of Kansas School District were disclosed in the audit.
4. There were no audit findings reported of deficiencies in internal control over major programs, which the auditor considers to be "significant deficiencies" as defined by A.I.C.P.A. standards.
5. The auditor's report on compliance for the major federal award programs for Kansas School District expresses an unqualified opinion.
6. There were no audit findings relative to major federal award programs for Kansas School District that were required to be reported by OMB Circular A-133.
7. The programs tested as major programs included: ARRA Stabilization (84.394); Education Jobs Fund (84.410) and Child Nutrition Cluster (10.555 & 10.553).
8. A threshold for distinguishing Types A and B programs was \$300,000.00.
9. Kansas School District was determined to be a low-risk auditee for purposes of determining overall percentage of Federal compliance testing.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

1. No matters were reported.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. No matters were reported.

**KANSAS SCHOOL DISTRICT NO. I-3  
DELAWARE COUNTY, OKLAHOMA  
SUMMARY OF PRIOR AUDIT FINDINGS  
JULY 1, 2010 TO JUNE 30, 2011**

The summary of prior audit findings is required to report the status of all audit findings reported in the prior audit's schedule of findings and questioned costs relative to federal awards.

The school district had no prior year audit findings relative to federal award programs.



**KANSAS SCHOOL DISTRICT NO. I-3  
DELAWARE COUNTY, OKLAHOMA  
SCHEDULE OF COMMENTS  
JULY 1, 2010 TO JUNE 30, 2011**

The following conditions, while not representing material weaknesses in the system of internal accounting control, represent areas noted during my review of the school's accounting system in which I feel improvements in the internal control and/or operational efficiency may be attained. I have also noted, as required, any noncompliance with State Department of Education Regulations.

**I. Condition:** During our review of Activity Fund sponsor receipts we noted the following:

Deposits were not always made in a timely manner. Approximately 20% of sponsor receipts tested were not deposited on a timely basis.

Also, the Junior Class sponsor was not writing the person's name to whom the receipt was issued on the face of the receipts. Receipts were made out to the organization sponsor and t-shirt sales, rather than the person submitting the monies.

**Recommendation:** Revenue should be deposited with the bank on the day it is collected or at least weekly if it does not exceed \$100.00.

In addition, each receipt issued should be completely filled out showing the date, the person from whom money was received, the source or other pertinent information describing the nature of the collection, the amount (both numerical and written), and indication denoting the type of collection (i.e., cash, check, money order, etc.).

**II. Condition:** Our testing of school activity fundraisers noted a lack of standard procedures and controls needed to ensure that all inventory for resale is safeguarded and accounted for, all sales are identified, and receipts are issued and monies deposited timely. The following information was noted:

1. Other than receipts, no financial information pertaining to fundraisers is required to be submitted to the administration building.
2. Sponsors/sites are not required to keep fundraising information for any specified period of time, and based upon the sample selection we tested many are not keeping the information at all once the fundraiser is completed.
3. Profit and loss statements are not being prepared by the teachers/sponsors conducting fundraisers.
4. A list of students owing monies from particular fundraisers could not be located at the sites and fundraisers tested.

**Recommendation:** The Board of Education should adopt a policy on the handling of fundraisers inclusive of the following requirements:

1. All fundraiser information is required to be retained for a minimum of five years.
2. All sponsors should be required to complete a District approved and required profit and loss form for each fundraiser, along with supporting documentation. For instance all of the gross sales listed on the form should correspond to a student order forms or other forms of documentation corresponding, as well as receipts supporting monies collected. Any products that were discounted, lost, or that money that was not ever received should be accounted for on this form. The expenditures should be supported with a purchase order and invoice for the products.
3. The fundraiser profit and loss form, along with all supporting documentation should be submitted to the principal after the completion of the fundraiser. The principal should review and approve the information and sign the form. Furthermore, upon request the principal should send this information to the administration building.
4. Periodically, the activity fund secretary should sample a selection of fundraisers from a sample of sites and review the fundraising information to see that the profit and loss information is accurate and supporting documentation is adequate.
5. The principal is responsible for the activity funds at their school and should constantly monitor them to ensure District guidelines are followed.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
SCHEDULE OF COMMENTS  
JULY 1, 2010 TO JUNE 30, 2011**

Due to the timing of the fundraiser recommendation in the 2009-10 fiscal year audit, most of the school's fundraisers were completed by the time of the audit exit conference, therefore, the previous year's recommendation could not be implemented for the 2010-11 fiscal year.

However, beginning in 2012, the District has implemented procedures requiring more documentation for fundraisers, including profit and loss documentation.

- III. **Condition:** The school's Activity Fund monies consist of cash in the activity bank account, certificates of deposit, and certain common stock certificates. As interest is earned on the certificates of deposit, the certificates are increased in value and renewed for additional periods of time. The school Activity Fund custodian is not receipting the interest earned on these certificates or posting the appropriate activity account balance for the interest earned by the certificates.

Additionally, dividends are sometimes received on the school's common stock certificates. These dividends are not being receipted and posted to the appropriate activity account balances at the time they are earned.

**Recommendation:** We recommend the school Activity Fund custodian receipt interest earned on certificates of deposit at the time the interest is paid and the certificate is increased. Additionally, any dividends paid on common stock certificates held by the Activity Fund, should be receipted at the time the dividend is paid. Activity account balances should be posted appropriately.

The common stock certificates also fluctuate in value throughout the fiscal year. The school Activity Fund custodian should adjust the total market value of these certificates at least annually at fiscal year end in order to ensure accurate reporting for financial statement purposes.

**Previous Year's Audit Comments**

The school has implemented appropriate procedures during fiscal year 2009-10.

I would like to express my appreciation for the courtesies and cooperation extended to us by school district administrators and employees during the course of this audit.

**KANSAS SCHOOL DISTRICT NO. 1-3  
DELAWARE COUNTY, OKLAHOMA  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011**

State of Oklahoma }  
County of Tulsa }

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 Kansas School District for the audit year 2010-11.

Kerry John Patten, C.P.A.  
AUDITING FIRM

BY

*Kerry John Patten*  
AUTHORIZED AGENT



Subscribed and sworn to before me on this

30 day of January, 2012

*Linda Kellick* 05010870  
NOTARY PUBLIC

My commission expires on:

30 day of November, 2013