

# State Auditor & Inspector

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

**MOUNDS INDEPENDENT SCHOOL DISTRICT NO. 1-5,  
CREEK COUNTY, OKLAHOMA**

**JUNE 30, 2011**

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011

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Angie French

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3-4
Independent Auditor's Report	5-6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements - Regulatory Basis - Performed in Accordance with Government Auditing Standards	7-8
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	9-10
Disposition of Prior Year's Reportable Conditions and Material Instances of Non-Compliance	11
Schedule of Audit Results, Findings and Questioned Costs	12
<b>Combined Financial Statements – Regulatory Basis</b>	
Combined Statement of Assets, Liabilities and Fund Equity - All Fund Types and Account Groups – Regulatory Basis	13
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types and Expendable Trusts – Regulatory Basis	14
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	15-17
<b>Notes to Combined Financial Statements - Regulatory Basis</b>	18-33
<b>Combining Financial Statements – Regulatory Basis</b>	
Combining Statement of Assets, Liabilities and Fund Equity – All Capital Projects Funds – Regulatory Basis	34

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
JUNE 30, 2011

	<u>Page No.</u>
<b>Combining Financial Statements – Regulatory Basis – cont'd</b>	
Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Capital Projects Funds – Regulatory Basis	35
Combining Statement of Assets, Liabilities and Fund Equity – All Fiduciary Fund Types – Regulatory Basis	36
Combining Statement of Changes in Assets and Liabilities – Agency Funds – Regulatory Basis	37
Schedule of Expenditures of Federal Awards – Regulatory Basis	38
Schedule of Statutory, Fidelity and Honesty Bonds	39
Schedule of Accountant's Professional Liability Insurance Affidavit	40



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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Board of Education  
Mounds School District No. I-5  
Mounds, Oklahoma

We have audited the accompanying fund type and account group financial statements of Mounds School District No. I-5 (the District), Creek 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 October 7, 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

October 7, 2011



**SANDERS, BLEDSOE & HEWETT**  
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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  
Mounds School District No. I-5  
Mounds, Oklahoma

We have audited the combined financial statements – regulatory basis of Mounds School District (the District) No. I-5, Mounds, 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 October 7, 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 October 7, 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

October 7, 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  
Mounds School District No. I-5  
Mounds, Oklahoma

Compliance

We have audited Mounds School District (the District) No. I-5, Mounds, 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

October 7, 2011

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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-5, CREEK 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 Child Nutrition Programs (10.553, 10.555) which were clustered in determination, and the State Fiscal Stabilization Funds (84.394) and the Education Jobs Fund (84.410) which were 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. 1-5, CREEK 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	CAPITAL PROJECTS	EXPENDABLE TRUST & AGENCY FUNDS	LONG-TERM DEBT		
<b>ASSETS</b>								
Cash	\$ 731,215	24,673	(54,086)	540,000	46,994			1,288,796
Investments	707,349	50,000	415,433		47,634			1,220,416
Amounts available in debt service						18,772		18,772
Amount to be provided for retirement of long-term debt						3,630,228		3,630,228
<b>Total Assets</b>	<b>\$ 1,438,564</b>	<b>74,673</b>	<b>361,347</b>	<b>540,000</b>	<b>94,628</b>	<b>3,649,000</b>		<b>6,158,212</b>

**LIABILITIES AND FUND EQUITY**

<b>Liabilities:</b>								
Warrants payable	\$ 343,686	20,114						363,800
Unmatured obligations			342,575					342,575
Funds held for school organizations					93,420			93,420
Long-term debt:								
Bonds payable						1,265,000		1,265,000
Capital leases						2,384,000		2,384,000
Total liabilities	<u>343,686</u>	<u>20,114</u>	<u>342,575</u>	<u>0</u>	<u>93,420</u>	<u>3,649,000</u>		<u>4,448,795</u>
<b>Fund Equity:</b>								
Cash fund balances	1,094,878	54,559	18,772	540,000	1,208	0		1,709,417
<b>Total Liabilities and Fund Equity</b>	<b>\$ 1,438,564</b>	<b>74,673</b>	<b>361,347</b>	<b>540,000</b>	<b>94,628</b>	<b>3,649,000</b>		<b>6,158,212</b>

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	INSURANCE RECOVERY FUNDS	
<b>Revenues Collected:</b>						
Local sources	\$ 554,530	86,449	382,639			1,023,618
Intermediate sources	88,988					88,988
State sources	3,129,741	6	35			3,129,782
Federal sources	1,013,292					1,013,292
Interest earnings	12,109					12,109
Non-revenue receipts	345		163			508
<b>Total revenues collected</b>	<u>4,799,005</u>	<u>86,455</u>	<u>382,837</u>	<u>0</u>	<u>0</u>	<u>5,268,297</u>
<b>Expenditures:</b>						
Instruction	2,521,700				6,911	2,528,611
Support services	1,287,622	127,233			1,766	1,416,621
Operation of non-instructional services	272,284					272,284
<b>Other outlays:</b>						
Reimbursements	457					457
Clearing account	23,425					23,425
Repayments	1,792					1,792
Debt service requirements			379,746			379,746
<b>Total expenditures</b>	<u>4,107,280</u>	<u>127,233</u>	<u>379,746</u>	<u>0</u>	<u>8,677</u>	<u>4,622,936</u>
<b>Excess of revenues collected over (under) expenditures before other financing sources (uses)</b>	691,725	(40,778)	3,091	0	(8,677)	645,361
<b>Other financing sources (uses):</b>						
Bond sale proceeds				540,000		540,000
Adjustments to prior year encumbrances	79					79
<b>Total other financing sources (uses)</b>	<u>79</u>	<u>0</u>	<u>0</u>	<u>540,000</u>	<u>0</u>	<u>540,079</u>
<b>Excess of revenues collected over (under) expenditures</b>	691,804	(40,778)	3,091	540,000	(8,677)	1,185,440
<b>Cash fund balances, beginning of year</b>	<u>403,074</u>	<u>95,337</u>	<u>15,681</u>	<u>0</u>	<u>9,885</u>	<u>523,977</u>
<b>Cash fund balances, end of year</b>	<u>\$ 1,094,878</u>	<u>54,559</u>	<u>18,772</u>	<u>540,000</u>	<u>1,208</u>	<u>1,709,417</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 500,009	554,530	54,521
Intermediate sources	90,745	88,988	(1,757)
State sources	3,130,250	3,129,741	(509)
Federal sources	865,292	1,013,292	148,000
Interest earnings		12,109	12,109
Non-revenue receipts		345	345
Total revenues collected	<u>4,586,296</u>	<u>4,799,005</u>	<u>212,709</u>
Expenditures:			
Instruction	3,399,497	2,521,700	877,797
Support services	1,294,684	1,287,622	7,062
Operation of non-Instruction	269,515	272,284	(2,769)
Other Outlays:			
Reimbursement	457	457	
Clearing account	23,425	23,425	
Repayments	1,792	1,792	
Total expenditures	<u>4,989,370</u>	<u>4,107,280</u>	<u>882,090</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(403,074)	691,725	1,094,799
Adjustments to prior year encumbrances	<u>0</u>	<u>79</u>	<u>79</u>
Excess of revenue collected over (under) expenditures	(403,074)	691,804	1,094,878
Cash fund balance, beginning of year	<u>403,074</u>	<u>403,074</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>1,094,878</u>	<u>1,094,878</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS (BUILDING FUND)		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 62,614	86,449	23,835
State sources		6	6
Total revenues collected	62,614	86,455	23,841
Expenditures:			
Support services	157,951	127,233	30,718
Excess of revenue collected over (under) expenditures	(95,337)	(40,778)	54,559
Cash fund balances, beginning of year	95,337	95,337	0
Cash fund balances, end of year	\$ 0	54,559	54,559

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 364,065	382,639	18,574
State sources		35	35
Interest earnings		163	163
Total revenues collected	364,065	382,837	18,772
Requirements:			
Bonds	347,833	347,833	
Coupons	31,913	31,913	
Total requirements	379,746	379,746	0
Excess of revenue collected over (under) expenditures	(15,681)	3,091	18,772
Cash fund balance, beginning of year	15,681	15,681	0
Cash fund balance, end of year	\$ 0	18,772	18,772

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-5, CREEK 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 Mounds Public Schools Independent District No. I-5 (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-5, CREEK 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 (not used), and child nutrition (not used) funds

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. 1-5, CREEK 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**

Child Nutrition Fund - The child nutrition fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the various nutrition programs provided to students.

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

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

**Fiduciary Fund Types**

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

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District only maintained the Insurance Recovery 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 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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

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

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

**Account Groups**

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

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

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

**Memorandum Only - Total Column**

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

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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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**

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

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

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

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

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

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 a fixed asset 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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

**D. Budgets and Budgetary Accounting – cont'd**

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.

**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 Assets Account Group is not presented in the financial statements.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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**

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.

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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**

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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**

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state.

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

The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains a separate child nutrition fund and the federal revenues received for the child nutrition programs are apportioned there.

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK 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**

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. CASH AND INVESTMENTS – cont'd**

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 \$1,307,340. 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 of certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$1,220,416.

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

*Credit risk – Investments* – Credit risk is the risk that the issuer or other counterparty to and 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 American Heritage Bank, Armstrong Bank, Citizens Security Bank, and American Century, 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED 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.

General long-term debt of the District consists of general obligation bonds payable and a capital lease. Debt service requirements for bonds are paid solely from the fund balance and the 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:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2010	\$ 1,150,000	2,384,000	3,534,000
Additions	540,000	-	540,000
Retirements	(425,000)	-	(425,000)
Balance, June 30, 2011	<u>\$ 1,265,000</u>	<u>2,384,000</u>	<u>3,649,000</u>

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

	Amount Outstanding
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2006, original issue \$725,000, interest rate of 3.45% to 3.60%, due in initial installments of \$175,000, final payment of \$200,000 due 10-1-12	\$ 375,000
Building Bonds, Series 2009, original issue \$310,000, interest rate of 2.70% to 3.70%, due in annual installments of \$75,000, final payment of \$85,000 due 6-1-14	235,000

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

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

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 2010, original issue \$115,000, interest rate of 2.45%, due in one installment of \$115,000 due 4-1-12	\$ 115,000
Building Bonds, Series 2011, original issue \$540,000, interest rate of 0.95% to 1.65%, due in one installment of \$135,000, final payment due 6-1-16	540,000
<u>Capital Leases:</u>	
Lease-purchase of leased facilities and equipment with Standard Capital Finance, LLC, dated February 1, 2010, totaling \$2,384,000, interest rate of 4.25%, due in varying annual principal and interest payments	<u>2,384,000</u>
Total Long-Term Debt	<u>\$ 3,649,000</u>

The annual debt service requirements for the retirement of bond principal, capital lease principal and interest are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 715,142	160,020	875,162
2013	1,273,561	105,647	1,379,208
2014	310,262	57,620	367,882
2015	504,099	49,951	554,050
2016	284,785	32,443	317,228
2017-2021	561,151	23,849	585,000
Total	<u>\$ 3,649,000</u>	<u>429,530</u>	<u>4,078,530</u>

Interest paid on general long-term debt during the 2010-11 fiscal year totaled \$37,767.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

Basis of Accounting

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

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2010-11 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

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%.

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

Annual Pension Cost

The District's total contributions for 2011, 2010 and 2009 were \$330,961, \$340,237 and \$227,258, respectively.

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

**7. CONTINGENCIES**

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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

7. CONTINGENCIES – cont'd

Litigation

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

**COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL CAPITAL PROJECT FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	2011 TRANSPORTATION BOND FUND	2011 BUILDING BOND FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 280,000	260,000	540,000
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities	\$ 0	0	0
Fund Equity:			
Cash fund balances	280,000	260,000	540,000
Total Liabilities and Fund Equity	\$ 280,000	260,000	540,000

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - ALL CAPITAL PROJECT FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	2011 TRANSPORTATION BOND FUND	2011 BUILDING BOND FUND	TOTAL
Revenue:			
Bond sale proceeds	\$ 280,000	260,000	540,000
Expenditures	0	0	0
Excess of revenues collected over (under) expenditures	280,000	260,000	540,000
Cash fund balances, beginning of year	0	0	0
Cash fund balances, end of year	\$ 280,000	260,000	540,000

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FIDUCIARY FUND TYPES -REGULATORY BASIS  
 JUNE 30, 2011

	TRUST FUNDS	AGENCY FUNDS	TOTAL
<u>ASSETS</u>	INSURANCE RECOVERY FUNDS	SCHOOL ACTIVITY FUNDS	
Cash	\$ 1,208	45,786	46,994
Investments		47,634	47,634
 Total Assets	\$ 1,208	93,420	94,628
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Funds held for school organizations	\$ 0	93,420	93,420
Fund Equity:			
Cash fund balances	1,208	0	1,208
 Total Liabilities and Fund Equity	\$ 1,208	93,420	94,628

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
 AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	BALANCE 7-01-10	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-11
<b>ASSETS</b>					
Cash	\$ 27,759	213,024	0	194,997	45,786
Investments	37,609	10,025			47,634
<b>Total assets</b>	<b>\$ 65,368</b>	<b>223,049</b>	<b>0</b>	<b>194,997</b>	<b>93,420</b>
<b>LIABILITIES</b>					
Funds held for school organizations:					
Athletics	\$ 2,335	90,267		68,144	24,458
Eagles Nest (Petty Cash)	0	200		200	0
Band	452	7,181		7,089	544
BETA Club	2,011	7,412		8,959	464
Cheerleaders	822	8,325		8,836	311
Home Economics	68	335		354	49
Elementary Library	2,538	7,336		5,873	4,001
High School Library	1,789	50		271	1,568
Spanish Club	92	0		0	92
Recycling	400	64		0	464
Student Council	368	0		0	368
Yearbook	6,552	15,975		11,939	10,588
Softball	3,854	4,480		7,697	637
Midnight Regiment Scholarship	0	0		0	0
Accelerated Reading Incentive	1,290	1,990		2,007	1,273
General	318	8,867		4,665	4,520
Sophomore Class	77	0		0	77
Girls Basketball	527	6,582		4,909	2,200
Nat'l Forensic League (Speech)	4	3,256		3,005	255
Vocal Music	1,225	1,328		2,376	177
Indian Club	442	0		0	442
Middle School	3	5,367		2,792	2,578
Bill Mooney Art Fund	9,408	0		0	9,408
Baseball	1,832	8,407		5,762	4,477
Middle School Student Council	439	230		464	205
H.S. Academic Team	92	20		0	112
M.S. Cheerleaders	251	305		181	375
Elementary	8,207	3,647		9,210	2,644
Elementary Counselor	823	25		821	27
M.S. Academic Team	101	0		0	101
Weight Lifting Fund	3,912	11,064		7,433	7,543
Prom	998	3,336		2,927	1,407
Athletic Boosters	47	0		0	47
Band Booster	0	0		0	0
Basketball	4,145	12,455		15,964	636
Employees Flower Fund	54	424		453	25
Josh Upchurch Memorial	3,780	1,375		900	4,255
H.S. Office	1,170	2,279		454	2,995
Fire Fund	2,750	0		1,433	1,317
Upper Elementary AR	42	0		0	42
Science	511	9,724		8,032	2,203
FCA	1,639	743		1,847	535
<b>Total Liabilities</b>	<b>\$ 65,368</b>	<b>223,049</b>	<b>0</b>	<b>194,997</b>	<b>93,420</b>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK 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>							
Indian Education	84.060a	S060A100243	\$ 56,784	0	56,784	56,784	0
<u>Passed Through State Department of Education:</u>							
Title I	84.010		169,443		92,403	115,065	22,662
Title I, ARRA	84.389		49,896		49,896	49,896	
Title I, ARRA 2009-10 - Note	84.389			15,806	15,806		
Title I, School Improvement 2009-10 - Note	84.010			15,311	15,311		
Title II, Part A	84.367		31,097		14,341	15,663	1,322
Title II, Part A 2009-10 - Note	84.367			3,925	3,925		
Title II, Part D	84.318		539				
Title II, Part D 2009-10 - Note	84.318			288	288		
Title IV, Part A 2009-10 - Note	84.186			689	689		
Title VI, Part B	84.358		16,587		6,738	6,738	
21st Century	84.287		225,000		145,675	200,427	54,752
21st Century 2009-10 - Note	84.287			99,787	99,787		
*State Fiscal Stabilization Fund	84.394		149,706		149,706	149,706	
*Education Jobs	84.410		127,787		127,787	127,787	
Sub Total			<u>770,055</u>	<u>135,806</u>	<u>722,352</u>	<u>665,282</u>	<u>78,736</u>
<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				55,362	55,911	549
National school lunch program	10.555				165,206	166,724	1,518
Sub Total					<u>220,568</u>	<u>222,635</u>	<u>2,067</u>
<u>Passed Through Department of Human Services</u>							
<u>*Non-cash assistance - commodities - Note 1</u>							
National school lunch program	10.555				14,378	14,378	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130		9,660			9,660	9,660
Johnson O'Malley 2009-10 - Note	15.130			2,865	2,865		
Rehab Services	84.126		10,616		10,616	10,616	
Flood Control	12.106		107		107	107	
Sub Total			<u>20,383</u>	<u>2,865</u>	<u>13,588</u>	<u>20,383</u>	<u>9,660</u>
Total Federal Assistance			<u>\$ 847,222</u>	<u>138,671</u>	<u>1,027,670</u>	<u>979,462</u>	<u>90,463</u>

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 \$14,378 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

\* Major programs

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2011

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
The Beckman Company - RLI Surety Co.	Treasurer	FID8002368	\$ 50,000	10/30/10 - 10/30/11
	Superintendent	LSM0221057	100,000	07/01/10 - 07/01/11
	Encumbrance Clerk	FID8001134	2,000	12/09/10 - 12/09/11
	Payroll Clerk	FID8001134	2,000	12/09/10 - 12/09/11
	Admin Asst / Elem. Principal	FID8001134	5,000	12/09/10 - 12/09/11
	Child Nutrition	FID8001134	2,000	12/09/10 - 12/09/11
	Activity Fund	FID8001134	2,000	12/09/10 - 12/09/11
	Child Nutritionist	FID8001134	2,000	12/09/10 - 12/09/11
	Athletic Director	FID8001134	2,000	12/09/10 - 12/09/11

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011

State of Oklahoma            )  
  ) ss  
County of Tulsa             )

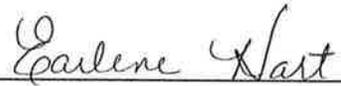
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Mounds 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 7<sup>th</sup> day of October, 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

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

October 7, 2011

Mr. Alfred Gaches, Supt.  
Mounds Public Schools  
P.O. Box 189  
Mounds, Oklahoma 74047

Dear Mr. Gaches:

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.**

Construction Projects

1. It appears that the roofing project for the High School building was not in proper compliance with the Public Competitive Bidding Act. This project was in excess of \$50,000 and, in our opinion, this type of construction project should have been advertised in a newspapers of general circulation, and the sealed bids should have included a written bid with the required affidavits and bid bond. After selection of the awarded company, all successful and unsuccessful bidding information should be retained on file for at least five years.
2. The bleacher project that was approved during the 2010-11 year was properly advertised and bids were taken correctly. However, we were unable to observe the contract with the company awarded the project, along with the required bonds that normally accompany a construction contract (statutory bond, maintenance bond, performance bond). These items should be kept on file for at least five years.

Mr. Alfred Gaches, Supt.  
Mounds Public Schools

Page 2

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,

A handwritten signature in black ink, appearing to read "Eric M. Bledsoe". The signature is fluid and cursive, with a prominent initial "E" and "M".

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP