

**NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. 1**

MCCLAIN COUNTY, OKLAHOMA

JUNE 30, 2011

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MCCLAIN COUNTY, OKLAHOMA  
JUNE 30, 2011

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Schedule of Accountants' Professional Liability Insurance

Exhibit G-1

\* The required internal control, compliance, and schedule of findings and questioned costs are required by Government Auditing Standards and OMB Circular A-133 when a single audit is applicable

**NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. I-1, MCCLAIN COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011**

**BOARD OF EDUCATION**

President	Randy Corbin
Vice President	Doug Harryman
Clerk	Gary Knowles
Deputy Clerk	Dawayne Smith
Member	James Albertson

**SUPERINTENDENT OF SCHOOLS**

Dr. Robert Everett

**ENCUMBRANCE CLERK**

Carol Busler

**SCHOOL DISTRICT TREASURER**

Jimmie Holman



ANGEL,  
JOHNSTON &  
BLASINGAME, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education  
Newcastle Independent School District #1  
McClain County, Oklahoma

Board Members:

We have audited the accompanying fund type and account group financial statements, including budget and actual, of the **Newcastle Independent School District #1**, McClain County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **Newcastle Independent School District #1**, McClain County, has prepared these financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America although not reasonably determinable are presumed to be material.

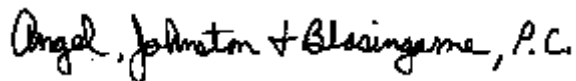
In addition, the District has not maintained the cost of fixed assets purchased in previous years and thus does not know the amount that should be recorded in the General Fixed Asset Account Group. Therefore, the General Fixed Asset Account Group has not been presented. This information is required under the regulatory presentation prescribed by the Oklahoma State Department of Education.

In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of **Newcastle Independent School District #1**, McClain County, Oklahoma, as of June 30, 2011, or the changes in its financial position for the year then ended.

In our opinion, except for the omission of the General Fixed Asset Account Group results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of **Newcastle School District, No 1**, McClain County, Oklahoma as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and budgetary results for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on financial statements that collectively comprise **Newcastle Independent School District #1**, McClain County, Oklahoma, as a whole. The combining fund statements and other schedules as listed in the table of contents 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 purposes of additional analysis as required by the *Oklahoma Department of Education and/or the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations* and is also not a required part of the combined financial statements of **Newcastle Independent School District #1**, McClain County, Oklahoma. The combining fund statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole on the regulatory basis of accounting described in Note 1.



Chickasha, Oklahoma  
November 16, 2011

COMBINED FINANCIAL STATEMENTS

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combined Statement of Assets, Liabilities and Equity**  
**Regulatory Basis - All Fund Types and Account Groups**  
**For the Year Ending June 30, 2011**

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt	June 30, 2011
<b>ASSETS</b>							
Cash and Cash Equivalents	\$ 1,512,420	\$ 150,979	\$ 1,205,171	\$ 482,248	\$ 161,180	\$ 0	\$ 3,511,998
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	1,205,171	1,205,171
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	2,959,829	2,959,829
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	6,025,854	6,025,854
Amounts to be Provided For Compensated Absences	0	0	0	0	0	110,850	110,850
<i>Total Assets</i>	<u>\$ 1,512,420</u>	<u>\$ 150,979</u>	<u>\$ 1,205,171</u>	<u>\$ 482,248</u>	<u>\$ 161,180</u>	<u>\$ 10,301,704</u>	<u>\$ 13,813,702</u>
<b>LIABILITIES AND FUND BALANCE</b>							
Liabilities:							
Warrants Payable	\$ 507,113	\$ 7,893	\$ 0	\$ 29,550	\$ 0	\$ 0	\$ 544,556
Reserve for Encumbrances	38,207	29,951	0	0	0	0	68,158
Due to Activity Groups	0	0	0	0	161,180	0	161,180
General Obligation Bonds Payable	0	0	0	0	0	4,165,000	4,165,000
Capitalized Lease Obligations Payable	0	0	0	0	0	6,025,854	6,025,854
Compensated Absences Payable	0	0	0	0	0	110,850	110,850
<i>Total Liabilities</i>	<u>\$ 545,320</u>	<u>\$ 37,844</u>	<u>\$ 0</u>	<u>\$ 29,550</u>	<u>\$ 161,180</u>	<u>\$ 10,301,704</u>	<u>\$ 11,075,598</u>
Fund Equity:							
Reserved for Debt Service	\$ 0	\$ 0	\$ 1,205,171	\$ 0	\$ 0	\$ 0	\$ 1,205,171
Reserved for Capital Projects	0	0	0	452,698	0	0	452,698
Cash Fund Balance	967,099	113,135	0	0	0	0	1,080,235
<i>Total Fund Equity</i>	<u>\$ 967,099</u>	<u>\$ 113,135</u>	<u>\$ 1,205,171</u>	<u>\$ 452,698</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,738,103</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 1,512,420</u>	<u>\$ 150,979</u>	<u>\$ 1,205,171</u>	<u>\$ 482,248</u>	<u>\$ 161,180</u>	<u>\$ 10,301,704</u>	<u>\$ 13,813,702</u>

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

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances**  
**Regulatory Basis - All Governmental Fund Types**  
**For the Year Ending June 30, 2011**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2011
<b>Revenue Collected:</b>					
Local Sources	\$ 3,084,105	\$ 418,533	\$ 3,111,434	\$ 837	\$ 6,614,909
Intermediate Sources	245,027	0	0	0	245,027
State Sources	4,822,051	2	15	0	4,822,068
Federal Sources	1,184,122	0	0	0	1,184,122
Non-Revenue Receipts	19,536	330	0	0	19,866
<i>Total Revenue Collected</i>	<u>\$ 9,354,841</u>	<u>\$ 418,865</u>	<u>\$ 3,111,449</u>	<u>\$ 837</u>	<u>\$ 12,885,992</u>
<b>Expenditures Paid:</b>					
Instruction	\$ 5,920,721	\$ 41	\$ 0	\$ 73,371	\$ 5,994,132
Support Services	3,004,886	377,978	0	3,069	3,385,932
Operation of Non-Instructional Services	491,966	19,534	0	0	511,500
Facilities Acquisition and Construction	22,374	0	0	2,792,269	2,814,643
Other Outlays	264	0	0	0	264
Other Uses	0	0	0	0	0
Repayments	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	2,305,000	0	2,305,000
Interest and Fiscal Agent Fees	0	0	103,012	0	103,012
<i>Total Expenditures Paid</i>	<u>\$ 9,440,212</u>	<u>\$ 397,553</u>	<u>\$ 2,408,012</u>	<u>\$ 2,868,708</u>	<u>\$ 15,114,484</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (85,371)</u>	<u>\$ 21,313</u>	<u>\$ 703,437</u>	<u>\$ (2,867,872)</u>	<u>\$ (2,228,492)</u>
<b>Adjustments to Prior Year Encumbrances</b>	<u>\$ 2,755</u>	<u>\$ 145</u>	<u>\$ 0</u>	<u>\$ (32,217)</u>	<u>\$ (29,317)</u>
<b>Other Financing Sources (Uses):</b>					
Estopped Warrants	\$ 778	\$ 0	\$ 0	\$ 0	\$ 778
Bond Proceeds	0	0	0	0	0
Transfers In	283,742	0	0	0	283,742
Transfers Out	(2,800)	0	0	0	(2,800)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 281,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 281,720</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 199,105</u>	<u>\$ 21,458</u>	<u>\$ 703,437</u>	<u>\$ (2,900,089)</u>	<u>\$ (1,976,089)</u>
<i>Fund Balance - Beginning of Year</i>	<u>767,995</u>	<u>91,677</u>	<u>501,734</u>	<u>3,352,787</u>	<u>4,714,192</u>
<i>Fund Balance - End of Year</i>	<u>\$ 967,099</u>	<u>\$ 113,135</u>	<u>\$ 1,205,171</u>	<u>\$ 452,698</u>	<u>\$ 2,738,103</u>

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



**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types**  
**For the Year Ending June 30, 2011**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>Revenue Collected:</b>									
Local Sources	\$ 2,603,110	\$ 2,603,110	\$ 3,084,105	\$ 372,161	\$ 372,161	\$ 418,533	\$ 2,970,003	\$ 2,970,003	\$ 3,111,449
Intermediate Sources	208,000	208,000	245,027	0	0	0	0	0	0
State Sources	4,535,888	4,535,888	4,822,051	0	0	2	0	0	0
Federal Sources	1,075,877	1,075,877	1,184,122	0	0	0	0	0	0
Non-Revenue Receipts	0	0	19,536	0	0	330	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 8,422,875</u>	<u>\$ 8,422,875</u>	<u>\$ 9,354,841</u>	<u>\$ 372,161</u>	<u>\$ 372,161</u>	<u>\$ 418,865</u>	<u>\$ 2,970,003</u>	<u>\$ 2,970,003</u>	<u>\$ 3,111,449</u>
<b>Expenditures Paid:</b>									
Instruction	\$ 9,485,870	\$ 9,485,870	\$ 5,920,721	\$ 0	\$ 0	\$ 41	\$ 0	\$ 0	\$ 0
Support Services	0	0	3,004,886	463,838	463,838	377,978	0	0	0
Operation of Non-Instructional Services	0	0	491,966	0	0	19,534	0	0	0
Facilities Acquisition and Construction	0	0	22,374	0	0	0	0	0	0
Other Outlays	0	0	264	0	0	0	3,471,737	3,471,737	2,408,012
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 9,485,870</u>	<u>\$ 9,485,870</u>	<u>\$ 9,440,212</u>	<u>\$ 463,838</u>	<u>\$ 463,838</u>	<u>\$ 397,553</u>	<u>\$ 3,471,737</u>	<u>\$ 3,471,737</u>	<u>\$ 2,408,012</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (1,062,995)</u>	<u>\$ (1,062,995)</u>	<u>\$ (85,371)</u>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,313</u>	<u>\$ (501,734)</u>	<u>\$ (501,734)</u>	<u>\$ 703,437</u>
<b>Adjustments to Prior Year Encumbrances</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,755</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 145</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Other Financing Sources (Uses):</b>									
Estopped Warrants	\$ 0	\$ 0	\$ 778	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	295,000	295,000	283,742	0	0	0	0	0	0
Transfers Out	0	0	(2,800)	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 295,000</u>	<u>\$ 295,000</u>	<u>\$ 281,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (767,995)</u>	<u>\$ (767,995)</u>	<u>\$ 199,105</u>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,458</u>	<u>\$ (501,734)</u>	<u>\$ (501,734)</u>	<u>\$ 703,437</u>
<i>Fund Balance - Beginning of Year</i>	<u>767,995</u>	<u>767,995</u>	<u>767,995</u>	<u>91,677</u>	<u>91,677</u>	<u>91,677</u>	<u>501,734</u>	<u>501,734</u>	<u>501,734</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 967,099</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,135</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 1,205,171</u>

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

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies**

The basic financial statements of the Newcastle Public Schools Independent District No. 1, McClain County, Oklahoma (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

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

**1.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."

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.B. Fund Accounting, Governmental Fund Types, (continued)**

**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).

**1. General Fund** - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenues 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.

The General Fund also includes the Child Nutrition program. The Child Nutrition program consists of monies collected from meals served to students and employees of the district and expended on food, supplies and salaries to operate the lunchroom. The district also deposits reimbursements received from the National School Lunch and Breakfast programs into this fund. Normally the Child Nutrition program is set up in a separate Special Revenue Fund. However, the District has elected to include the Child Nutrition program as part of the General Fund.

**2. Special Revenue Funds** - The Special Revenue Funds of the District consist of the Building Fund.

Building Fund - The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

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

**4. Capital Projects Fund** - The Capital Projects Fund consists of the District's 2005 through 2010 Building and Transportation Bond Issues. These funds are 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. When these assets are held under the terms of a formal 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.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.B. Fund Accounting, (continued)**

**1. 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, of 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 not accounted for in proprietary funds.

1. General long-term Debt Account Group - This account group is used 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.

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

**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 in the aggregation of this data.

**1.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 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 and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.C. Basis of Accounting and Presentation, (continued)**

- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

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.

**1.D. Budgets and Budgetary Accounting**

The District is required by state law to prepare an annual budget. The board of education requests an initial temporary appropriations budget from the county excise board before June 30. Then no later than October 1, the board of education prepares financial statement and estimate of needs and files it with the applicable county clerk and the State Department of Education. The final budget may be revised upon approval of the board of education and the county excise board.

Under current Oklahoma Statutes, a formal 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.

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

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments - Investments consist of direct obligations of the United States government and agencies with maturities greater than three months when purchased. All investments are records at cost, which approximated market value.

Property Tax Revenues – The District is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer 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 are due prior to January 1. The second half is due prior to April 1.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.E. Assets, Liabilities and Fund Equity, (continued)**

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 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.

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

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group has not been presented.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an 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 nonvesting accumulating rights to receive sick 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.

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. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

**1.F. Revenue, Expenses, and Expenditures**

State Sources - Revenues from state sources for current operations are primarily governed by the state aid formula under provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of the 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.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.F. Revenue, Expenses, and Expenditures, (continued)**

The District receives revenue from the state to administer certain categorical education programs. The 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.

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. Transfers in/transfers out may not agree because activity fund transactions are not included.

**Note 2 – Deposit and Investment Risk**

The District held the following deposits and investments at June 30, 2011:

		Carrying Value
Deposits		
Demand Deposits	\$	3,516,698
Time Deposits		0
Total Deposits	\$	3,516,698
Investments		
	<u>Credit Rating</u>	<u>Maturity</u>
		<u>Fair Value</u>
		\$ 0
Total Investments		\$ 0
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	3,511,998
Activity Fund Outstanding Checks		4,700
Total Deposits and Investments	\$	3,516,698

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

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 2 – Deposit and Investment Risk, (continued)**

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

At June 30, 2011, the District was not exposed to custodial credit risk as defined above.

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

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

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investment by reporting the credit quality ratings of investment in debt securities as determined by nationally recognized statistical rating organizations-rating agencies-as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The district had no investment credit risk as of June 30, 2011, as defined above.

**Investment Interest Rate Risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District had no investment interest rate risk as defined above.



**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 2 – Deposit and Investment Risk, (continued)**

**Concentration of Investment Credit Risk** – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District places no limit on the amount it may invest in any one issuer.

At June 30, 2011, the District had no concentration of credit risk as defined above.

**Note 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 and transportation purposes. 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, obligations for compensated absences, and capital leases. Debt service requirements for bonds are payable solely from the 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 :

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2010	6,470,000	7,894,050	110,024	14,474,074
Additions	0	82,996	826	83,822
Retirements	2,305,000	1,951,192	0	4,256,192
Balance, June 30, 2011	4,165,000	6,025,854	110,850	10,301,704

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2010 Combined Purpose Bonds	1.5-3.0%	March 1, 2013	\$ 3,415,000	\$ 3,415,000
2008 Combined Purpose	3.125-4.00%	January 1, 2013	<u>1,400,000</u>	<u>750,000</u>
<b>Totals</b>			<b>\$ <u>4,815,000</u></b>	<b>\$ <u>4,165,000</u></b>

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 3 - General Long-term Debt, (continued)**

Presented below is a summary of debt service requirements to maturity by years and by each bond issue:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>2008 Combined Purpose Bonds</b>			
2011-12	375,000	17,906	392,906
2012-13	375,000	6,000	381,000
<b>Sub Total</b>	<b>\$ 750,000</b>	<b>\$ 23,906</b>	<b>\$ 773,906</b>
<b>2010 Combined Purpose Bonds</b>			
2011-12	590,000	60,075	650,075
2012-13	2,825,000	42,375	2,867,375
	<u>3,415,000</u>	<u>102,450</u>	<u>3,517,450</u>
<b>Total Bonds</b>	<b>\$ 4,165,000</b>	<b>\$ 126,356</b>	<b>\$ 4,291,356</b>

Interest expense on bonds payable incurred during the current year totaled \$103,012.

The District has entered into a lease agreement as lessee for financing the acquisition of lighting upgrade, land and construction of a new middle school and improvements. These lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease terms and they have been recorded at the present value of the future minimum lease payments. These leases contain a clause which gives the District the ability to terminate the lease agreements at the end of each fiscal year.

As noted in Note 1 to the financial statements, the District does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the above assets as assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the general long-term debt account group for the above leases.

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	Middle School Land/ Improvements	Lighting Upgrade	Total
2012	\$ 1,959,900	\$ 19,426	\$ 1,979,326
2013	1,984,650	19,426	2,004,076
2014	2,014,350	19,426	2,033,776
2015	0	14,569	14,569
Total	<u>\$ 5,958,900</u>	<u>72,847</u>	<u>\$ 6,031,747</u>
Less: Amount Representing Interest	<u>0</u>	<u>(5,893)</u>	<u>(5,893)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 5,958,900</u>	<u>66,954</u>	<u>\$ 6,025,854</u>

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 3 - General Long-term Debt, (continued)**

In addition to the above payments, the District is required to make a semi-annual rental payment of \$12,500 to rent the remaining portion of the facility that has not been purchased.

Also, the District accrues for unused sick leave for eligible employees. Unused sick leave for certified salaries is calculated at various rates up to 120 days depending upon years of service. Any amount in excess of 120 days is paid at \$15 per day upon retirement by the district. Unused sick leave is paid to noncertified employees at various rates up to 120 days depending upon years of service. However, no amounts are paid for days in excess of 120 days upon retirement. The liability for compensated absences at June 30, 2011, is as follows:

Unused Sick Leave Liability – Certified	\$ 98,720
Unused Sick Leave Liability-Support	12,130
	-----
Total Compensated Absences	\$110,850
	-----

**Note 4 - Employee Retirement System**

**Plan Description** - The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System") which is a cost-sharing multiple-employer defined benefit Public Employee Retirement System. Under the System the District, the State of Oklahoma, and the participating employees make contributions. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The district has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

The System issues an independent financial report, financial statements and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Ok 73152 or by calling (405) 521-2387.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent or the average of the highest three earning years of contributory service multiplied by the number of years of credited service. 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, and 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 District is required by statute to contribute 9.50% of applicable compensation for the year ended June 30, 2011. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The District's contributions to the System for the years ending June 30, 2011, 2010, and 2009 were \$409,702, \$490,436, and \$425,299 respectively.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 4 - Employee Retirement System, (continued)**

The compensation for employees covered by the System for the year ended June 30, 2011 was \$4,312,644; the District's total compensation was \$6,838,941. In addition to the District's 9.50% contributions, the District was required to pay into the System 6.5% of compensation arising from federal grants (\$16,326) and 9.50% of compensation arising from post retirement employees (\$0). There were \$230,558 contributions made by employees during the year ended June 30, 2011.

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, 2010, is as follows:

Total pension obligation	\$ 19,980,640,592
Net assets available for benefits, at cost	<u>9,566,683,405</u>
Nonfunded pension benefit obligation	<u>\$ 10,413,957,187</u>

The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2010. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they come due.

**Note 5 - Contingencies**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**Litigation**

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable and the amounts are not readily estimable, the District believes the resolution of these matters will not have a material adverse effect on the financial statements and may be settled by the District's insurance carrier. The District intends to vigorously defend itself on the various lawsuits.

**Note 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, employees' health and life and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**Newcastle ISD No. 1, McClain County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 7 - Use of Estimates**

The preparation of financial statements in conformity with the cash basis and budget laws of the Oklahoma State Department of Education requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 8 – Surety Bonds**

The treasurer is bonded by Western Surety Company, bond number 69418842 for the penal sum of \$250,000 for the term July 1, 2010 to July 1, 2011.

The district also has a public official schedule bond with Old Republic Surety Group bond number 1109913 for the penal sum of \$5,000 for the period March 1, 2011 to March 1, 2012 that covers the encumbrance clerk, deputy clerk, activity fund custodian, and the lunch fund custodian.

The Superintendent is bonded by Ohio Casualty Insurance Company bond number 5057350 for the penal sum of \$100,000 for the period July 1, 2010 to July 1, 2011.

**Note 9 – Difference Between Audited Financial Statements and Estimate of Needs Information (Building Fund)**

The school district incurred expenses for repairs after tornado damage in May of 2011. One invoice dated June 30, 2011, for \$29,950 was paid from the building fund 2011-2012 fiscal year appropriations. Since the work was performed in the 2010-2011 fiscal year, the invoice should have been reserved and paid from 2010-2011 appropriations. The attached financial statements were adjusted for this amount.

OTHER SUPPLEMENTAL INFORMATION

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combining Statement of Assets, Liabilities and Cash Fund Balances**  
**Regulatory Basis - All Special Revenue Funds**  
**For the Year Ending June 30, 2011**

<b><u>ASSETS</u></b>	<b><u>Building Fund</u></b>	<b><u>Total June 30, 2011</u></b>
Cash and Cash Equivalents	\$ 150,979	\$ 150,979
Investments	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 150,979</u>	<u>\$ 150,979</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
Liabilities:		
Warrants Payable	\$ 7,893	\$ 7,893
Reserve for Encumbrances	<u>29,951</u>	<u>29,951</u>
<i>Total Liabilities</i>	<u>\$ 37,844</u>	<u>\$ 37,844</u>
Fund Balance:		
Cash Fund Balance	<u>\$ 113,135</u>	<u>\$ 113,135</u>
<i>Total Fund Balance</i>	<u>\$ 113,135</u>	<u>\$ 113,135</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 150,979</u>	<u>\$ 150,979</u>

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances**  
**Regulatory Basis - Special Revenue Funds**  
**For the Year Ending June 30, 2011**

	<b>Building Fund</b>	<b>Total June 30, 2011</b>
<b>Revenue Collected:</b>		
Local Sources	\$ 418,533	\$ 418,533
Intermediate Sources	0	0
State Sources	2	2
Federal Sources	0	0
Non-Revenue Receipts	330	330
<i>Total Revenue Collected</i>	\$ 418,865	\$ 418,865
<b>Expenditures Paid:</b>		
Instruction	\$ 41	\$ 41
Support Services	377,978	377,978
Operation of Non-Instructional Services	19,534	19,534
Facilities Acquisition and Construction	0	0
Other Outlays	0	0
Other Uses	0	0
Repayments	0	0
Interest Paid and Bank Charges	0	0
<i>Total Expenditures Paid</i>	\$ 397,553	\$ 397,553
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	\$ 21,313	\$ 21,313
<b>Adjustments to Prior Year Encumbrances</b>	\$ 145	\$ 145
<b>Other Financing Sources (Uses):</b>		
Estopped Warrants	\$ 0	\$ 0
Transfers In	0	0
Transfers Out	0	0
<i>Total Other Financing Sources (Uses)</i>	\$ 0	\$ 0
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	\$ 21,458	\$ 21,458
<i>Fund Balance - Beginning of Year</i>	91,677	91,677
<i>Fund Balance - End of Year</i>	\$ 113,135	\$ 113,135



Newcastle School District No.I-001, McClain County, Oklahoma  
 Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances  
 Special Revenue Funds - Budget and Actual  
 For the Year Ending June 30, 2011

	Building Fund			Total		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>Revenue Collected:</b>						
Local Sources	\$ 372,161	\$ 372,161	\$ 418,533	\$ 372,161	\$ 372,161	\$ 418,533
Intermediate Sources	0	0	0	0	0	0
State Sources	0	0	2	0	0	2
Federal Sources	0	0	0	0	0	0
Non-Revenue Receipts	0	0	330	0	0	330
<i>Total Revenue Collected</i>	<u>\$ 372,161</u>	<u>\$ 372,161</u>	<u>\$ 418,865</u>	<u>\$ 372,161</u>	<u>\$ 372,161</u>	<u>\$ 418,865</u>
<b>Expenditures Paid:</b>						
Instruction	\$ 0	\$ 0	\$ 41	\$ 0	\$ 0	\$ 41
Support Services	463,838	463,838	377,978	463,838	463,838	377,978
Operation of Non-Instructional Services	0	0	19,534	0	0	19,534
Facilities Acquisition and Construction	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0
Other Uses	0	0	0	0	0	0
Repayments	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 463,838</u>	<u>\$ 463,838</u>	<u>\$ 397,553</u>	<u>\$ 463,838</u>	<u>\$ 463,838</u>	<u>\$ 397,553</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,313</u>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,313</u>
<b>Adjustments to Prior Year Encumbrances</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 145</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 145</u>
<b>Other Financing Sources (Uses):</b>						
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0
Transfers Out	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,458</u>	<u>\$ (91,677)</u>	<u>\$ (91,677)</u>	<u>\$ 21,458</u>
<i>Fund Balance - Beginning of Year</i>	<u>91,677</u>	<u>91,677</u>	<u>91,677</u>	<u>91,677</u>	<u>91,677</u>	<u>91,677</u>
<i>Fund Balance - End of Year</i>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 113,135</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 113,135</u></u>

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combining Assets, Liabilities and Fund Equity**  
**Activity Fund - Regulatory Basis**  
**For the Year Ending June 30, 2011**

<b><u>ASSETS</u></b>	<b><u>School Activity Fund</u></b>
Cash	\$ 161,180
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 161,180</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Due To Activity Groups	\$ <u>161,180</u>
<i>Total Liabilities</i>	<u>\$ 161,180</u>
Fund Equity:	
Unreserved/Undesignated	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 161,180</u>

**Newcastle School District No.1-001, McClain County, Oklahoma**  
**Combining Statement of Changes in Assets and Liabilities**  
**Regulatory Basis - Activity Fund**  
**For the Year Ending June 30, 2011**

<b>ACTIVITIES</b>	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2011</b>
Child Nutrition Program	\$ 1	\$ 272,421	\$ 272,409	\$ 12
Athletics	1,717	171,916	140,043	33,589
Elementary Crafts	3,235	0	572	2,663
Band	17,045	10,252	22,222	5,075
High School	90	2,678	2,439	329
Mock Trial	55	0	0	55
Elementary Library	4,337	20,388	20,848	3,877
Elementary Music	198	6,103	5,371	929
Elementary PE	4,224	5,793	3,377	6,641
Elementary School	216	19,957	16,088	4,085
Spanish Club	439	326	447	317
Elementary Art	929	1,858	1,410	1,377
Drama Club	1,893	0	0	1,893
General Fund Refund	0	12,541	12,541	0
HS Cheer	10,055	53,902	55,165	8,792
HS Library	2,310	2,100	2,267	2,144
HS Choir	821	2,645	2,211	1,254
HS Stuco	1,276	7,228	7,242	1,262
Honor Society	273	205	406	72
Class of 2012	1,169	12,581	9,043	4,707
Class of 2014	0	95	0	95
Class of 2011	1,844	4,526	6,370	0
Math Club	2,167	2,158	899	3,425
MS Library	3,262	6,480	8,273	1,469
Middle School	395	896	807	484
MS Stuco	10,412	15,836	14,478	11,770
Miscellaneous	123	4,673	2,774	2,022
Petty Cash-Elem/M.S.	0	200	200	0
Petty Cash HS/Admin	0	200	200	0
FCS	238	0	0	238
MS Art	1	0	0	1
HS Yearbook	8,500	21,025	16,827	12,699
Computer Club	7	0	0	7
FCCLA	1,025	4,560	5,229	356
HS Art	7,580	500	392	7,689
Elementary Fundraiser	13,547	17,507	19,430	11,624
FBLA	394	0	0	394
Pit Crew	357	1,044	805	595
Creative Writing Club	317	43	32	328
Class of 2013	110	621	0	731
KDG FR/NEA Grant	14	0	0	14
MS Cheer	4,852	17,710	19,028	3,534
MS Fundraiser	1,357	1,647	2,786	219
Sports FR/Booster Club	7,605	22,721	22,808	7,517
Book Club	109	165	180	94
HS GTS	97	0	0	97
MS GTS	0	0	0	0
HS Newspaper	84	0	0	84
HS Science Club	221	1,256	1,293	184
HS SADD	146	0	0	146
FFA	3,779	43,176	45,060	1,895
Elementary Yearbook	480	8,745	8,913	312
MS Yearbook	1,587	7,525	6,445	2,668
Elementary Grant	197	0	197	0
Scholarship	500	0	500	0
Pre-K	1,788	4,458	3,867	2,380
Kindergarten	1,812	5,115	5,125	1,802
First Grade	1,957	5,708	5,306	2,359
Second Grade	1,894	4,881	5,255	1,521
Third Grade	51	2,485	2,373	163
Fourth Grade	251	1,906	1,750	407
Fifth Grade	3	1,611	1,308	306
HS Principle Leadership	812	3,649	2,040	2,421
HS Hospitality	0	453	398	55
<b>Total Activities</b>	<b>\$ 130,160</b>	<b>\$ 816,466</b>	<b>\$ 785,447</b>	<b>\$ 161,180</b>

**NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. 1, MCCLAIN COUNTY**  
**SCHEDULE OF FEDERAL AWARDS EXPENDED**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA#	Pass-Through Grantor's Project Number	Deferred Revenue (Accounts Receivable) July 1, 2010	Federal Grant Receipts	Federal Grant Expenditures	Deferred Revenue (Accounts Receivable) June 30, 2011
<b>U.S. Department of Education</b>						
<u>Direct Programs:</u>						
Indian Education Title VII	84.060A	561	(25,306)	115,889	71,011	19,572
<u>Passed Through Oklahoma State Department of Education:</u>						
Title I, Basic	84.010	511	(22,820)	106,426	126,178	(42,572)
ARRA Title I, Basic	84.389	516	(4,535)	4,535	0	0
<b>Title I Cluster</b>			(27,355)	110,961	126,178	(42,572)
IDEA-B Flowthrough	84.027	621	(144,410)	144,410	287,135	(287,135)
ARRA IDEA B, Flow Through	84.391A	622	(68,665)	68,665	0	0
ARRA Preschool	84.392A	643	(451)	451	0	0
IDEA-B Preschool	84.173	641	(5,651)	14,925	9,274	0
<b>Special Education Cluster</b>			(219,177)	228,451	296,408	(287,134)
ARRA Education Stabilization Fund	84.394	782	0	316,364	316,364	0
<b>ARRA Stabilization Cluster</b>			0	316,364	316,364	0
Title II, Part A,	84.367	541	(7,861)	7,861	20,888	(20,888)
Title II, Part D	84.318	546	(1,253)	1,253	0	0
Title II, Part D	84.318	548	(244)	0	0	0
Title VI, Part B Rural and Low Income	84.358	587	0	4,172	21,235	(17,064)
Title IV, Part A	84.186A	551	(2,531)	0	3,397	(3,397)
Education Jobs Fund	84.410	790	0	195,290	258,109	(62,819)
<b>Total U.S. Department of Education</b>			<b>(283,726)</b>	<b>980,241</b>	<b>1,113,591</b>	<b>(414,302)</b>
<b>U.S. Department of Agriculture</b>						
<u>Passed Through State Department of Education:</u>						
Breakfast Program (Note 2)	10.553	385	0	31,182	31,182	0
Lunch Program (Note 2)	10.555	385	0	172,700	172,700	0
Commodities Distributed-Lunch (Note 3)	10.555	385	0	46,343	46,343	0
<b>Child Nutrition Cluster</b>			0	250,224	250,224	0
<b>Total U.S. Department of Agriculture</b>			<b>0</b>	<b>250,224</b>	<b>250,224</b>	<b>0</b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>(283,726)</b>	<b>1,230,465</b>	<b>1,363,815</b>	<b>(414,302)</b>

Note 1 - The Schedule of Federal Awards expended was prepared using the same accounting policies used in preparing the District's Financial Statements. The District's policy is to recognize expenditures when encumbered (contracted for) rather than at the time the related fund liability is incurred.

Note 2 - The District does not track expenditures paid from these federal programs separately. Thus, expenditure amounts are the amount of federal revenues received from these programs during the fiscal year.

Note 3 - Commodities received in the amount of \$46,343 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 4 - The district coded \$321,218 of expenditures to project 782 and \$260,477 to project 790. The expenditures reported on this schedule were limited to the revenues received.

The following transactions related to the American Recovery and Reinvestment Act:

	CFDA #	Program #	Federal Grant Receipts	Federal Grant Expenditures	Deferred ARRA Revenue (Accounts Rec)
ARRA Title I	84.389	516	4,535	0	0
ARRA Special Education	84.391A	622	68,665	0	0
ARRA Special Education Preschool	84.392A	643	451	0	0
ARRA Education Stabilization Fund	84.394	782	316,364	316,364	0
			<b>390,015</b>	<b>316,364</b>	<b>0</b>



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CERTIFIED PUBLIC ACCOUNTANTS

**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  
Newcastle Independent School District #1  
McClain County, Oklahoma

Board Members:

We have audited the fund type and account group financial statements, including budget and actual, of **Newcastle Independent School District #1**, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements, and have issued our report thereon dated November 16, 2011. The report on these financial statements was adverse because the District has elected to prepare its financial statements in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to a departure related to the general fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**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 opinions 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.

**Newcastle Independent School District**

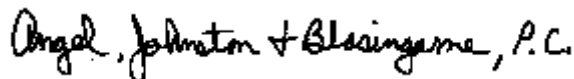
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Finding 2011-1, 2011-2, 2011-3, 2011-4, 2011-5) A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 or other matters that are required to be reported under Government Auditing Standards.

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of education of **Newcastle Independent School District #1**, 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.



Chickasha, Oklahoma  
November 16, 2011



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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERAIL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Board of Education  
Newcastle Independent School District #I-1  
McClain County, Oklahoma

Board Members:

Compliance

We have audited **Newcastle Independent School District #I-1**, McClain County, Oklahoma's, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, **Newcastle Independent School District #I-1, McClain County**, Oklahoma 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.

**Newcastle Independent School District**

Internal Control Over Compliance

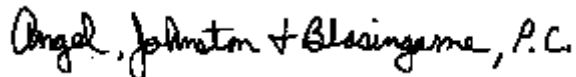
Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 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.

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. However, we did identify deficiencies in internal control over compliance that we consider to be significant deficiencies that are listed in the accompanying schedule of findings of questioned costs as finding 2011-6.

**Newcastle Independent School District #I-1**, McClain County, Oklahoma, responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit **Newcastle Independent School District's** responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the governing board, management, others within the agency, 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.



Chickasha, Oklahoma  
November 16, 2011



**Newcastle ISD No. 1, McClain County**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2011

**Section 1**

**Summary of Auditor's Results**

Financial Statements

- |   |   |
|---|---|
| 1. Type of auditor's report issued  | Adverse<br>(Due to F/S being prepared on<br>a regulatory basis of accounting) |
| 2. Internal control over financial reporting;                                       |   |
| a. Material weaknesses identified?  | No  |
| b. Significant deficiencies identified not considered to be<br>material weaknesses? | Yes   |
| c. Noncompliance material to the financial statements noted?                        | No  |

Federal Awards

- |  |             |
|--|-------------|
| 1. Internal control over major program:  |             |
| a. Material weaknesses identified?   | No          |
| b. Significant deficiencies identified not considered to be<br>material weaknesses?  | Yes         |
| 2. Type of auditor's report issued on compliance for major program:  | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in<br>accordance with Circular OMB A-133, Section 510(a)? | No          |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.394	ARRA Education Stabilization Fund
84.410	Education Jobs Fund
84.027, 84.391A, 84.392A, 84.173	Special Education Cluster

- |  |           |
|--|-----------|
| 5. Dollar threshold used to distinguish between Type A or Type B<br>programs:        | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133,<br>Section 530? | No        |

**Newcastle ISD No. 1, McClain County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011  
(continued)

## Section 2

### Financial Statement Findings

#### 2011-1 Finding

**Condition** - District employees could not provide purchase orders or invoices for 4 of the expenditures we selected for testing. These included 3 payments to the prior encumbrance clerk for \$147.32 and one payment for \$1,700 for a back to school video.

**Criteria** - Purchase orders and invoices should be kept with the District's permanent records.

**Cause/Effect of Condition** - It appears most of the unlocated purchase orders would have been taken care of by the former encumbrance clerk and the employee who took her place was unable to find them.

**Recommendation** - We recommend purchase orders and invoices be kept with the District's permanent records.

**Views of Responsible Officials and Corrective Action Plans** - Management will make sure all purchase orders and invoices are kept with District's permanent records.

#### 2011-2 - Finding

**Condition** -During testing of goods and services, we noted 32 of 56 invoices we tested did not have a signature designating who received/inspected the goods or services.

**Criteria** - Invoices should be signed by the person receiving the goods or services showing that all were received in good condition.

**Cause/Effect of Condition** - School employees are not following procedures that are in place and it could allow goods and services to be paid for that were not actually received or were not received in good condition.

**Recommendation** - School employees should follow procedures that are in place and make sure that someone has signed off that goods and services are received prior to payment being issued.

**Views of Responsible Officials and Corrective Action Plans** - Management stated that the District will have a receiving department that will receive everything and have responsible people to verify the goods and services are received in good condition and sign the invoice or packing slip.

#### 2011-3 - Finding

**Condition** - During testing for understatement of encumbrances, we found one invoice in the general fund that was dated June 28, 2011 for \$16,015 that was paid out of 2011-12 appropriations and one invoice from the building fund dated June 30, 2011 for \$29,950 that was paid out 2011-12 appropriations .

**Criteria** - Expenditures should be paid from the fiscal year appropriations in which they are incurred or obligated.

**Cause/Effect of Condition** - These expenses were in connection with the tornado in May of 2011 and the District employees were not aware they needed to be reserved and paid out of 2010-11 year appropriations.

**Recommendation** - District employees should make sure to set up reserves for all expenses that have been incurred or obligated but not yet paid prior to year end. Since the amount in the building fund is material to the financial statements, we recommend the financial statements be adjusted to include this reserve.

**Views of Responsible Officials and Corrective Action Plans** - Management agrees and reserves will be set up in the future and the attached financial statements have been adjusted to reflect an additional \$29,950 building fund expenditure.

**Newcastle ISD No. 1, McClain County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011  
(continued)

**2011-4 - Finding**

**Condition** - We noted several employees that do not appear to fall under any exemption of the Fair Labor Standards Act but who are not keeping time records.

**Criteria** - The Fair Labor Standards Act requires all employees that do not fall under specific exemptions to keep time records and to be paid one and half times their hourly rate for hours worked in excess of 40 in a week.

**Cause/Effect of Condition** - Management misunderstood the exemptions and, therefore, had not required the employees to keep track of their time.

**Recommendation** - We recommend all employees who do not fall under one of the exemptions of the Fair Labor Standards Act, keep a record of the time work and be paid time and a half for hours worked in excess of 40 in a week. If the District believes an employee is exempt, they should document the reason.

**Views of Responsible Officials and Corrective Action Plan** - Management agrees and these employees will start keeping time records.

**2011-5 - Finding**

**Condition** - During testing of Activity Fund Cheerleader subaccount, we noticed that purchases were being made above the balance in the subaccount. We noted that the cheer guidelines require all cheerleaders to either raise or pay out of pocket around \$1,100 for high school and \$850 for middle school plus choreography. In past years, the cheer sponsor has received a large donation from an IndianTribe that helped pay for some of the cheerleader's dues. The sponsor also made the decision on which cheerleaders received the benefit of the donation. The sponsor anticipated receiving this donation for the 2010-11 year, however it never materialized.

**Criteria** - A purchase order/requisition should be approved by the activity fund custodian, prior to a purchase being made. If there is not enough money in the subaccount, the expenditure should not be made. In addition, cheerleader guidelines did not give the sponsor discretion to determine which cheerleaders could receive donations.

**Cause/Effect of Condition** - The sponsor was not following school policy, and therefore, had encumbered approximately \$12,000 of expenses that they did not have in their account. When the sponsor started getting pressed by the company to pay the expenses, she started trying to collect from the girls who had not already paid their dues. Once she had enough money, they paid off all the invoices.

**Recommendation** - Prior to approving a purchase, we recommend the activity fund custodian check the balance in the subaccount to ensure there are adequate funds to cover the purchase.

**Views of Responsible Officials and Corrective Action Plans** - Management and the sponsor understand the problem, and will follow proper purchasing procedures and cheerleader guidelines in the future.

**Newcastle ISD No. 1, McClain County**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2011  
(continued)

*Federal Award Findings and Questioned Costs*

**2011-6 Finding - Indian Education CFDA 84.060A Grant Period Year Ending June 30, 2011**

**Condition** - The District called down \$19,571.63 more Indian Education (Project Code 561) monies than what they coded to expenditures during the year.

**Criteria** - Federal regulations require direct federal monies be expended within 3 days of calling it down.

**Cause/Effect of Condition** - The director of the Indian Education Program became ill and the encumbrance clerk took over the program during this time and called down the balance of the grant without comparing it to the expenditures made. The District may be required to refund the overpayment.

**Recommendation** - The District should contact the Indian Education program to determine whether the monies should be repaid or if they can be expended them during the 2011-12 year. In the future, we recommend they print a claim for reimbursement similar to claims filed with the state to determine the amount that can be called down.

**Views of Responsible Officials and Corrective Action Plans** - The District will call the Indian Education to see what action is required. In the future, they will only call down the amount shown on a claim for reimbursement.

**Questioned Cost** - \$19,571.63

**Newcastle ISD No. 1, McClain County**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2011

**Financial Statement Findings**

**2010-1 Finding – Lack of Segregation of Duties**

**Statement of Condition** - The District has a lack of segregation of duties. While helping to prepare the estimate of needs, we noted \$9,454.23 of 2010-11 warrants cleared the bank before June 30, 2010. Upon further investigation, it appeared that the payroll clerk had issued 2010-11 payroll warrants to herself and cashed them before June 30, 2010. She also issued additional 2010-11 payroll checks that she cashed in July. She was able to issue these warrants because she had access to all of the signature stamps that were used to sign the warrants. In addition, the treasurer did not notice the discrepancy while performing her reconciliation procedures.

**Criteria** – A good system of internal controls provides for a proper segregation of the collecting, check writing and reconciling functions.

**Cause/Effect of Condition** – The district did not maintain the signature stamps in a secure location. Also, the treasurer did not fully understand the reconciliation process and thus, did not follow-up on these unusual transactions.

**Recommendation** – Signature stamps should be maintained in a secure location so that one person can not access all signature stamps required to issue a warrant. Also, the treasurer should become more familiar with her position through training so that she can identify potential problems.

**Current Status** – The treasurer keeps her stamp in a secure location and no other person has access to her stamp. The Encumbrance clerk keeps the board members stamps in a secure location

**Management Letter Findings:**

**2010-2 Finding** – A bank account to hold the ARRA federal monies was opened and closed during the year but there was no board of education approval of this bank account listed in the minutes.

**Recommendation** – To prevent unauthorized changes to bank accounts, we recommend all opening and closing of bank accounts be approved by the board of education.

Current Status – There were no new accounts opened or closed during the 2010-11 fiscal year.

**2010-3 Finding** – During our audit, district employees could not locate invoices/purchase orders for the following:

- Mr. Comfort - \$4,550 issued from the building fund.
- Oklahoma Therapy Consultants \$2,257.25 issued from the general fund
- Office Depot - \$247.02 issued from general fund

The district was able to obtain copies of the invoices for Mr. Comfort and Oklahoma Therapy Consultants in January of 2011 for us to review.

Oklahoma statutes require the encumbrance clerk to obtain an itemized invoice prior to making any payment. The purchase order and invoice are required to be maintained as part of the district's accounting records.

**Recommendation** – We recommend purchase orders and invoices be kept with the school's permanent records.

**Current Status** – The school was not able to locate some invoices/purchase orders for the 2010-11 year. See current comment in the "Schedule of Findings and Questioned Costs"

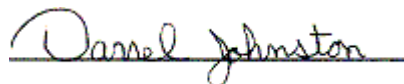
OTHER INFORMATION

**Hennessey ISD No. 16, Kingfisher County**  
Schedule of Accountant's Professional Liability Insurance Affidavit  
For Year Ending June 30, 2011

STATE OF OKLAHOMA    )  
  )ss  
COUNTY OF GRADY     )

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 *Hennessey Independent School District* for the audit year 2010-11.

ANGEL, JOHNSTON, & BLASINGAME, P.C.

  
\_\_\_\_\_

by \_\_\_\_\_

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

\_\_\_\_\_  
Notary Public

My Commission Expires 11-12-2012