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**FINANCIAL STATEMENTS AND REPORTS OF  
INDEPENDENT SCHOOL DISTRICT ACCOUNTS  
OKAY SCHOOL DISTRICT, NO. 1-1  
WAGONER COUNTY, OKLAHOMA**

**JUNE 30, 2011**

**OKAY SCHOOL DISTRICT I-1  
WAGONER COUNTY, OKLAHOMA  
JUNE 30, 2011**

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WAGONER COUNTY, OKLAHOMA  
JUNE 30, 2011**

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### **Independent Auditor's Report**

The Honorable Board of Education  
Okay Independent School District No. I-1  
Okay, Wagoner County, Oklahoma

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Okay School District No. I-1, Wagoner 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 Okay School District No. I-1, Wagoner County, Oklahoma. 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 of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 accounting principles generally accepted in the United States of America. The effect on the financial statements resulting from the use of this regulatory basis of accounting and presentation as compared to accounting principles generally accepted in the United States of America cannot be reasonably determined, but is considered 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, the combined financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Okay School District No. I-1, Wagoner County, Oklahoma as of June 30, 2011, and the respective changes in financial position thereof for the year then ended.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education noted above. The amount that should be recorded in the general fixed asset account group is not known.

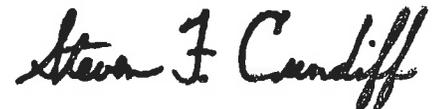
**Independent Auditor's Report (continued)**

However, in our opinion, except for the effects of the omission of the general fixed asset account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balances arising from regulatory basis transactions of each fund type and account group of Okay School District No. I-1, Wagoner County, Oklahoma, as of June 30, 2011, and the revenues collected and expenditures paid and encumbered of each fund type 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 14, 2011 on our consideration of Okay School District No. I-1, Wagoner County, Oklahoma'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 opinions 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 and is not a required part of the combined financial statements of the District. Also, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States 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. This other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting records used to prepare the combined financial statements. The 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement 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 taken as a whole on the regulatory basis of accounting described in Note 1.

November 14, 2011



Steven F. Cundiff, CPA, Inc.

**COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS**

**OKAY SCHOOL DISTRICT NO. 1-1**  
**COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY - REGULATORY BASIS**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2011**

|   | Governmental Fund Types |                      |                     | Fiduciary Fund Types |                     | Account Group          |      | Total (Memorandum Only) 2011 |
|---|-------------------------|----------------------|---------------------|----------------------|---------------------|------------------------|------|------------------------------|
|   | General Fund            | Special Revenue      | Debt Service        | Capital Projects     | Trust and Agency    | General Long-Term Debt |      |                              |
| <b>ASSETS</b>   |                         |                      |                     |                      |                     |                        |      |                              |
| Cash and cash equivalents (Note 2)                              | \$ 602,314.91           | \$ 109,135.52        | \$ 65,105.85        | \$ 20,388.87         | \$ 59,401.86        | \$ -                   | \$ - | \$ 856,347.01                |
| Investments   | 109,939.02              | -                    | -                   | -                    | -                   | -                      | -    | 109,939.02                   |
| Amount to be provided for compensated absences                  | -                       | -                    | -                   | -                    | -                   | 6,231.33               | -    | 6,231.33                     |
| Amount to be provided for capitalized lease agreements          | -                       | -                    | -                   | -                    | -                   | 8,375.67               | -    | 8,375.67                     |
| Amounts available in debt service fund                          | -                       | -                    | -                   | -                    | -                   | 65,105.85              | -    | 65,105.85                    |
| Amounts to be provided for retirement of general long-term debt | -                       | -                    | -                   | -                    | -                   | 534,894.15             | -    | 534,894.15                   |
| Total assets  | <u>\$ 712,253.93</u>    | <u>\$ 109,135.52</u> | <u>\$ 65,105.85</u> | <u>\$ 20,388.87</u>  | <u>\$ 59,401.86</u> | <u>\$ 614,607.00</u>   |      | <u>\$ 1,580,893.03</u>       |
| <b>LIABILITIES AND FUND EQUITY</b>                              |                         |                      |                     |                      |                     |                        |      |                              |
| Liabilities:  |                         |                      |                     |                      |                     |                        |      |                              |
| Outstanding warrants  | \$ 123,852.77           | \$ 20,348.85         | \$ -                | \$ -                 | \$ -                | \$ -                   | \$ - | \$ 144,201.62                |
| Encumbrances  | -                       | -                    | -                   | -                    | -                   | -                      | -    | -                            |
| Long-term debt (note 5):  |                         |                      |                     |                      |                     |                        |      |                              |
| Bonds payable   | -                       | -                    | -                   | -                    | -                   | 600,000.00             | -    | 600,000.00                   |
| Capital leases  | -                       | -                    | -                   | -                    | -                   | 8,375.67               | -    | 8,375.67                     |
| Compensated absence   | -                       | -                    | -                   | -                    | -                   | 6,231.33               | -    | 6,231.33                     |
| Due to student activities                                       | -                       | -                    | -                   | -                    | 59,401.86           | -                      | -    | 59,401.86                    |
| Total liabilities   | <u>123,852.77</u>       | <u>20,348.85</u>     | <u>-</u>            | <u>-</u>             | <u>59,401.86</u>    | <u>614,607.00</u>      |      | <u>818,210.48</u>            |
| Fund equity:  |                         |                      |                     |                      |                     |                        |      |                              |
| Restricted for capital projects                                 | -                       | -                    | -                   | 20,388.87            | -                   | -                      | -    | 20,388.87                    |
| Restricted for debt service                                     | -                       | -                    | 65,105.85           | -                    | -                   | -                      | -    | 65,105.85                    |
| Restricted for plant improvements and operations                | -                       | 34,213.11            | -                   | -                    | -                   | -                      | -    | 34,213.11                    |
| Restricted for child nutrition programs                         | -                       | 54,573.56            | -                   | -                    | -                   | -                      | -    | 54,573.56                    |
| Unassigned  | 588,401.16              | -                    | -                   | -                    | -                   | -                      | -    | 588,401.16                   |
| Total fund balances   | <u>588,401.16</u>       | <u>88,786.67</u>     | <u>65,105.85</u>    | <u>20,388.87</u>     | <u>-</u>            | <u>-</u>               |      | <u>762,682.55</u>            |
| Total liabilities and fund equity                               | <u>\$ 712,253.93</u>    | <u>\$ 109,135.52</u> | <u>\$ 65,105.85</u> | <u>\$ 20,388.87</u>  | <u>\$ 59,401.86</u> | <u>\$ 614,607.00</u>   |      | <u>\$ 1,580,893.03</u>       |

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

**OKAY SCHOOL DISTRICT NO. 1-1  
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,  
AND CHANGES IN FUND BALANCE - REGULATORY BASIS  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2011**

|  | Governmental Fund Types |                     |                     |                     | Total<br>(Memorandum<br>only) |
|--|-------------------------|---------------------|---------------------|---------------------|-------------------------------|
|  | General Fund            | Special<br>Revenue  | Debt<br>Service     | Capital<br>Projects |                               |
| Revenues collected:  |                         |                     |                     |                     |                               |
| Local sources  | \$ 455,736.70           | \$ 56,485.37        | \$ 85,629.02        | \$ 1,770.81         | \$ 599,621.90                 |
| Intermediate sources   | 73,003.89               | 54,885.91           | -                   | -                   | 127,889.80                    |
| State sources  | 2,172,290.53            | 18,643.29           | -                   | -                   | 2,190,933.82                  |
| Federal sources  | 521,560.63              | 131,118.38          | -                   | -                   | 652,679.01                    |
| Total revenues collected   | <u>3,222,591.75</u>     | <u>261,132.95</u>   | <u>85,629.02</u>    | <u>1,770.81</u>     | <u>3,571,124.53</u>           |
| Expenditures paid:   |                         |                     |                     |                     |                               |
| Instruction  | 1,927,747.38            | -                   | -                   | -                   | 1,927,747.38                  |
| Support Services   | 1,060,449.01            | 35,432.52           | -                   | 250.00              | 1,096,131.53                  |
| Non-Instructional services   | 20,498.84               | 221,071.61          | -                   | -                   | 241,570.45                    |
| Capital outlay   | 4,446.40                | -                   | -                   | 318,774.70          | 323,221.10                    |
| Other outlays  | 9,114.75                | 7,772.60            | -                   | -                   | 16,887.35                     |
| Debt services:   |                         |                     |                     |                     |                               |
| Principal retirement   | -                       | -                   | -                   | -                   | -                             |
| Interest   | -                       | -                   | 21,926.25           | -                   | 21,926.25                     |
| Total expenditures paid  | <u>3,022,256.38</u>     | <u>264,276.73</u>   | <u>21,926.25</u>    | <u>319,024.70</u>   | <u>3,627,484.06</u>           |
| Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances     | 200,335.37              | (3,143.78)          | 63,702.77           | (317,253.89)        | (56,359.53)                   |
| Adjustments to prior year encumbrances   | -                       | -                   | -                   | -                   | -                             |
| Other financing sources (uses):  |                         |                     |                     |                     |                               |
| Bond sale proceeds   | -                       | -                   | -                   | -                   | -                             |
| Operating transfers in   | -                       | -                   | -                   | -                   | -                             |
| Operating transfers out  | -                       | -                   | -                   | -                   | -                             |
| Total other financing sources (uses)   | -                       | -                   | -                   | -                   | -                             |
| Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses) | 200,335.37              | (3,143.78)          | 63,702.77           | (317,253.89)        | (56,359.53)                   |
| Fund balances, beginning of year   | 388,065.79              | 91,930.45           | 1,403.08            | 337,642.76          | 819,042.08                    |
| Fund balances, end of year   | <u>\$ 588,401.16</u>    | <u>\$ 88,786.67</u> | <u>\$ 65,105.85</u> | <u>\$ 20,388.87</u> | <u>\$ 762,682.55</u>          |

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



**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

1. **Summary of Significant Accounting Policies**

The financial statements of the Okay School District Number I-1 (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed or permitted by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The following is a summary of the more significant accounting policies:

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 five elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the district, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility included, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operation, 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 Board of Education (Board), an elected five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the local Independent School District. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

**OKAY SCHOOL DISTRICT I-1  
NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

**B. Measurement Focus**

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

A fund is 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** - The Special Revenue Funds consist of the Building Fund and the Child Nutrition 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.

**Child Nutrition Fund** - The Child Nutrition Fund is used to account for monies derived from federal and state reimbursement and local food service collections and is expended on food, supplies, and salaries to operate the breakfast and lunch programs.

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

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

**Measurement Focus – Governmental Fund Types (continued)**

**Capital Projects Fund** - The capital projects fund is the District's Bond Fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, and acquiring transportation equipment. The District does not have any capital project funds.

**Proprietary Fund Types**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds). The District does not have any proprietary funds.

**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, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" 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 operations.

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

**Account Groups**

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

**General Long-Term Debt Account Group** - This account group was established to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for compensated absences and early retirement incentives which are to be paid from funds provided in future years.

**General Fixed Asset Account Group** - This account group is used to account for property, plant and equipment of the School District. The District does not maintain a record of its general fixed assets, and, accordingly, a statement of general fixed assets, required by generally accepted accounting principles, is not included in the financial statements. Land, buildings, nonstructural improvements, and all other physical assets in all funds are considered expenditures in the year of acquisition and are not recorded as assets for financial statement purposes.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

Measurement Focus (continued)

Memorandum Only - Total Column

The total column on the 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 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

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is paid.
- A General Fixed Asset Account Group is required by the Department of Education and is presented in such an account group but is not depreciated.

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.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. Revenues are recognized when they are received rather than earned. Under the Statutory basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. Fiduciary type funds are accounted for using the cash basis of accounting. These practices differ from generally accepted accounting principles.

**OKAY SCHOOL DISTRICT I-1  
NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

**D. Budgets and Budgetary Accounting - Estimate of Needs**

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate. A budget is legally adopted by the Board of Education for the General Fund and Special Revenue Funds (Building Fund and Child Nutrition Fund) that includes revenues and expenditures.

The 2010-2011 Estimate of Needs was approved by the Board and subsequently filed with the County Clerk. The Estimate of Needs was approved by the excise board and the requested levies were made.

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. Appropriations not used or encumbered will lapse at the end of the year.

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

Cash and Cash Equivalents - 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 bank certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates 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 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 is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following 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 for the Child Nutrition Fund at June 30, 2011 is \$3,230.83. Purchases for inventory items are considered expenditures at the time the items were encumbered.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

**Assets, Liabilities and Fund Equity (continued)**

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group is not presented. The amount that should be recorded in the General Fixed Asset Account Group is not known.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has not been reported as an expenditure or a fund liability of the governmental fund that will pay it since the combined financial statements have been prepared on the regulatory basis of accounting. Vested accumulated rights to receive sick pay benefits have not been reported in the general long-term debt account group since the combined financial statements have been prepared on the regulatory basis of accounting. These practices differ from generally accepted accounting principles.

In accordance with the provisions of professional standards on accounting for Compensated Absences, 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.

Fund Balance - Fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

**G. Revenue, Expenses and Expenditures**

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 or additions of revenue of the year when the adjustment is made.

The District receives revenue from the State to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the General Fund.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

**Revenue, Expenses and Expenditures (continued)**

Interfund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during fiscal year 2011.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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. Accordingly, actual results could differ from those estimates.

Risk Management - The District participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the District reports the required contribution to the pool, net of refunds, as insurance expense.

**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, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

In accordance with state statutes and the District's investment policy, the District invests in bank certificates of deposit.

Deposits and Investments - The District's cash deposits and investments at June 30, 2011, were completely insured or collateralized by federal deposit insurance, direct obligations of the U.S. Government, or securities held by the District or by its agent in the District's name. The District's cash deposits and investments at June 30, 2011 are classified in the following categories:

|                           | Total<br>Deposits    | Insured<br>by FDIC   | Uninsured by FDIC               |                  |
|---------------------------|----------------------|----------------------|---------------------------------|------------------|
|                           |                      |                      | Collateralized<br>by Securities | Uncollateralized |
| Cash and cash equivalents | \$ 856,347.01        | \$ 250,000.00        | \$ 606,347.01                   | \$ 0.00          |
| Investments               | <u>109,939.02</u>    | <u>109,939.02</u>    | <u>0.00</u>                     | <u>0.00</u>      |
| Total                     | <u>\$ 966,286.03</u> | <u>\$ 359,939.02</u> | <u>\$ 606,347.01</u>            | <u>\$ 0.00</u>   |

**OKAY SCHOOL DISTRICT I-1  
NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011**

**3. Interfund Receivables and Payables**

There were no interfund receivables or payables at June 30, 2011.

**4. General Long-term Debt**

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years from the date of issue. General long-term debt of the District consists of bonds payable, obligations for compensated absences, early retirement incentive and capital leases. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund.

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

|                       | <u>Bonds<br/>Payable</u> | <u>Compensated<br/>Absences</u> | <u>Capital<br/>Lease<br/>Obligation</u> | <u>Total</u>         |
|-----------------------|--------------------------|---------------------------------|---|----------------------|
| Balance, July 1, 2010 | \$ 600,000.00            | \$ 6,641.01                     | \$ 25,146.54                            | \$ 631,787.55        |
| Additions             | 0.00                     | 0.00                            | 0.00                                    | 0.00                 |
| Retirements           | 0.00                     | (409.68)                        | (16,770.87)                             | (17,180.55)          |
| Balance June 30, 2011 | <u>\$ 600,000.00</u>     | <u>\$ 6,231.33</u>              | <u>\$ 8,375.67</u>                      | <u>\$ 614,607.00</u> |

Interest expense on general long-term bonds during the current year totaled \$21,926.25.

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

|                    |
|--------------------|
| Amount             |
| <u>Outstanding</u> |
| \$600,000.00       |

Independent School District I-1 Building Bonds, date November 1, 2009, original issue \$600,000.00, interest rates of 1.5% to 3.2% due in eight payments of \$65,000 and a final payment of \$80,000 due November 1, 2019.

The District has entered into two lease agreements as lessee for financing the acquisition of a score board, copier, scanner, and finisher. The lease agreements qualify as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. All leases contain the clause which gives the District the ability to terminate the lease agreement at the end of each fiscal year.

As disclosed 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 leased equipment 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.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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

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

| <u>Year Ending</u><br><u>June 30</u>                 | <u>Scanner</u><br><u>&amp; Copier</u> | <u>Scoreboard</u>  | <u>Total</u>       |
|--|---------------------------------------|--------------------|--------------------|
| 2012   | 1,387.55                              | 1,253.58           | 2,641.13           |
| 2013   | 1,387.55                              | 1,253.58           | 2,641.13           |
| 2014   | 1,387.55                              | 1,253.58           | 2,641.13           |
| 2015   | <u>0.00</u>                           | <u>1,253.58</u>    | <u>1,253.58</u>    |
| Total minimum<br>lease payments                      | 4,162.65                              | 5,014.32           | 9,176.97           |
| Less: amount<br>representing interest                | <u>(329.67)</u>                       | <u>(471.63)</u>    | <u>(801.30)</u>    |
| Present value of future<br>minimum lease<br>payments | <u>\$ 3,832.98</u>                    | <u>\$ 4,542.69</u> | <u>\$ 8,375.67</u> |

**5. Other Post Employment Benefits**

The District does not offer any early retirement incentive plans.

**6. Employee Retirement System**

The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). Under the system, contributions are made by the District, the State of Oklahoma, and the participating employees.

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.

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 earning years on contributory service multiplied by the number of years 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 \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Employee Retirement System (continued)**

The contribution rates for the District, which are not actuarial 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 9.5% 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%.

New legislation effective July 1, 2006, included the following changes to the System, as follows:

1. It established the EESIP whereby active members are eligible for the EESIP if they have service prior to July 1, 1995, are active on or after July 1, 2006, and are not employed by one of the comprehensive or regional four-year universities. The EESIP allows for two years of service prior to July 1, 1995 to be computed at an enhanced or eliminated cap for each year that the employee has worked beyond normal retirement age at the time of retirement. The \$40,000 cap applicable to service before July 1, 1995 is increased to \$60,000 for the year ended June 30, 2007, to \$80,000 for the year ended June 30, 2008, and the cap is removed beginning July 1, 2008 for service that qualifies for the enhancement provided by EESIP. The employee that elects the enhanced benefit must pay the accumulations, at 10% interest, of contributions that would have been required but for the cap then in place. Payment is required for those years of service that are computed at an elevated or eliminated cap. For those members electing the enhanced benefit, the payment required is 50% of the accumulated balance if the retirement occurs during the year ended June 30, 2007, 75% of the accumulated balance if retirement occurs during the year ended June 30, 2008 and 100% of the accumulated balance for members who retire on or after July 1, 2008.
2. The employer contribution rate increases to 7.85%, effective July 1, 2007. Further scheduled increases are 8.35/8.5% in 2008, 9% in 2009, and 9.5% in 2010.

The District's contribution to the System for the years ending:

|               |            |
|---------------|------------|
| June 30, 2011 | 293,868.11 |
| June 30, 2010 | 314,610.91 |
| June 30, 2009 | 307,834.05 |

There were no contributions made by employees during the year ended June 30, 2011. The District is required to match the retirement paid on salaries paid with federal funds.

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 Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Systems. The system issues an independent financial report, financial statements, and required supplementary information that 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.

**OKAY SCHOOL DISTRICT I-1**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

**Employee Retirement System (continued)**

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 become due.

**Schedule of Funding Progress (dollars in millions) (unaudited)**

| Actuarial<br>Valuation Date | Actuarial<br>Value of<br>Assets(AVA)<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)(b) | Unfunded<br>Actuarial<br>Accrued<br>Liability<br>(UAAL)(b-a) | Funder<br>Ratio(a/b) | Annual<br>Covered<br>Payroll(c) | UAAL as %<br>of Covered<br>Payroll<br>(b-a)/(c) |
|-----------------------------|---|---|--|----------------------|---------------------------------|---|
| June 30, 2000               | 5,373.5                                     | 10,009.2                                      | 4,635.7  | 53.7%                | 2,738.3                         | 169.3%  |
| June 30, 2001               | 5,959.0                                     | 11,591.1                                      | 5,632.1  | 51.4%                | 2,909.5                         | 188.3%  |
| June 30, 2002               | 6,310.9                                     | 12,275.9                                      | 5,965.0  | 51.4%                | 3,047.1                         | 195.8%  |
| June 30, 2003               | 6,436.9                                     | 11,925.2                                      | 5,488.3  | 54.0%                | 3,045.7                         | 180.2%  |
| June 30, 2004               | 6,600.9                                     | 14,080.1                                      | 7,419.2  | 47.3%                | 3,030.7                         | 244.8%  |
| June 30, 2005               | 6,952.7                                     | 14,052.4                                      | 7,099.7  | 49.5%                | 3,175.2                         | 223.6%  |
| June 30, 2006               | 7,470.4                                     | 15,143.4                                      | 7,672.9  | 49.3%                | 3,354.9                         | 228.7%  |
| June 30, 2007               | 8,421.9                                     | 16,024.4                                      | 7,602.5  | 52.6%                | 3,598.9                         | 211.2%  |
| June 30, 2008               | 9,256.8                                     | 18,346.9                                      | 9,090.1  | 50.5%                | 3,751.4                         | 242.3%  |
| June 30, 2009               | 9,439.0                                     | 18,950.9                                      | 9,512.0  | 49.8%                | 3,807.9                         | 249.8%  |
| June 30, 2010               | 9,566.7                                     | 19,980.6                                      | 10,414.0   | 47.9%                | 3,854.8                         | 270.2%  |

The employer contribution rates are established by the Oklahoma Legislature and are less than the annual required contribution, which is performed to determine the adequacy of such contribution rate.

**7. Contingencies and Other Commitments**

Amounts received or receivable from grantor 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.

**8. Insurance Coverage**

The District purchases commercial insurance policies covering property casualty loss, public liability, school board member and administrator liability, and workers compensation. The District also purchases surety bonds for employees in all positions required by state law to be bonded.

**9. Accumulated Unpaid Vacation, Sick Leave Benefits, and Health Care Coverage**

The District provides sick leave benefits to the certified staff in accordance with Title 70, Article 6-104, of the Oklahoma Statutes, which provides for an annual accrual of sick leave of ten days and personal business days accrual of three days. Ten days are allowed to accumulate up to a total of ninety days per employee. For employees with at least ten years vested in the school system will be paid \$20.00 per day for all accumulated sick days.

**10. Subsequent Events**

Subsequent events have been evaluated through November 14, 2011, which is the date the financial statements were available to be issued.

**COMBINING FINANCIAL STATEMENTS - REGULATORY BASIS**

**OKAY SCHOOL DISTRICT I-1  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - REGULATORY BASIS  
 ALL SPECIAL REVENUE FUNDS  
 JUNE 30, 2011**

|  | Building<br>Fund    | Child<br>Nutrition<br>Fund | Total                |
|--|---------------------|----------------------------|----------------------|
| <b>ASSETS</b>                                  |                     |                            |                      |
| Cash   | \$ 34,213.11        | \$ 74,922.41               | \$ 109,135.52        |
| Investments                                    | -                   | -                          | -                    |
| <b>Total assets</b>                            | <u>\$ 34,213.11</u> | <u>\$ 74,922.41</u>        | <u>\$ 109,135.52</u> |
| <b>LIABILITIES AND<br/>FUND BALANCE</b>        |                     |                            |                      |
| <b>Liabilities:</b>                            |                     |                            |                      |
| Outstanding warrants                           | \$ -                | \$ 20,348.85               | \$ 20,348.85         |
| Encumbrances                                   | -                   | -                          | -                    |
| <b>Total liabilities</b>                       | -                   | 20,348.85                  | 20,348.85            |
| Fund balances: restricted                      | <u>34,213.11</u>    | <u>54,573.56</u>           | <u>88,786.67</u>     |
| <b>Total liabilities and<br/>fund balances</b> | <u>\$ 34,213.11</u> | <u>\$ 74,922.41</u>        | <u>\$ 109,135.52</u> |

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

**OKAY SCHOOL DISTRICT I-1  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,  
 AND CHANGES IN FUND BALANCES - REGULATORY BASIS  
 ALL SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2011**

|   | Building<br>Fund    | Child<br>Nutrition<br>Fund | Total               |
|---|---------------------|----------------------------|---------------------|
| <b>Revenues Collected:</b>  |                     |                            |                     |
| District sources  | \$ -                | \$ 56,485.37               | \$ 56,485.37        |
| Intermediate sources  | 54,885.91           | -                          | 54,885.91           |
| State sources   | -                   | 18,643.29                  | 18,643.29           |
| Federal sources   | -                   | 131,118.38                 | 131,118.38          |
| Total revenues collected  | <u>54,885.91</u>    | <u>206,247.04</u>          | <u>261,132.95</u>   |
| <b>Expenditures paid:</b>   |                     |                            |                     |
| Instruction   | -                   | -                          | -                   |
| Support services  | 35,432.52           | -                          | 35,432.52           |
| Non-instruction services  | -                   | 221,071.61                 | 221,071.61          |
| Capital outlay  | -                   | -                          | -                   |
| Other outlays   | 7,700.00            | 72.60                      | 7,772.60            |
| Total expenditures paid   | <u>43,132.52</u>    | <u>221,144.21</u>          | <u>264,276.73</u>   |
| Excess of revenues collected<br>over (under) expenditures<br>before adjustments to<br>prior year encumbrances | <u>11,753.39</u>    | <u>(14,897.17)</u>         | <u>(3,143.78)</u>   |
| Adjustments to prior year<br>encumbrances   | <u>-</u>            | <u>-</u>                   | <u>-</u>            |
| Other financing sources (uses)  |                     |                            |                     |
| Operating transfers in  | -                   | -                          | -                   |
| Operating transfer out  | -                   | -                          | -                   |
| Total other financing<br>sources (uses)   | <u>-</u>            | <u>-</u>                   | <u>-</u>            |
| Excess (deficiency) of<br>revenues and other resources<br>over expenditures and other<br>uses                 | 11,753.39           | (14,897.17)                | (3,143.78)          |
| Fund balances, restricted: beginning of year  | <u>22,459.72</u>    | <u>69,470.73</u>           | <u>91,930.45</u>    |
| Fund balances, restricted: end of year  | <u>\$ 34,213.11</u> | <u>\$ 54,573.56</u>        | <u>\$ 88,786.67</u> |

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

**OKAY SCHOOL DISTRICT I-1  
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,  
AND CHANGES IN FUND BALANCES-REGULATORY BASIS  
SPECIAL REVENUE (BUILDING, CHILD NUTRITION FUNDS)  
FOR THE YEAR ENDED JUNE 30, 2011**

|  | Special Revenue Funds |                    |                     |                      |                    |                     |
|--|-----------------------|--------------------|---------------------|----------------------|--------------------|---------------------|
|  | Building Fund         |                    |                     | Child Nutrition Fund |                    |                     |
|  | Original Budget       | Final Budget       | Actual              | Original Budget      | Final Budget       | Actual              |
| Revenues collected:  |                       |                    |                     |                      |                    |                     |
| Local sources  | \$ 50,662.12          | \$ 50,662.12       | \$ 54,885.91        | \$ 54,953.33         | \$ 54,953.33       | \$ 56,485.37        |
| Intermediate sources   | -                     | -                  | -                   | -                    | -                  | -                   |
| State sources  | -                     | -                  | -                   | 3,317.02             | 3,317.02           | 18,643.29           |
| Federal sources  | -                     | -                  | -                   | 128,325.52           | 128,325.52         | 131,118.38          |
| Total revenues collected   | <u>50,662.12</u>      | <u>50,662.12</u>   | <u>54,885.91</u>    | <u>186,595.87</u>    | <u>186,595.87</u>  | <u>206,247.04</u>   |
| Expenditures paid:   |                       |                    |                     |                      |                    |                     |
| Instruction  | 5,000.00              | 5,000.00           | 7,700.00            | -                    | -                  | -                   |
| Support services   | 68,121.84             | 68,121.84          | 35,432.52           | -                    | -                  | -                   |
| Non-instruction services   | -                     | -                  | -                   | 255,966.60           | 255,966.60         | 221,071.61          |
| Capital outlay   | -                     | -                  | -                   | -                    | -                  | -                   |
| Other outlays  | -                     | -                  | -                   | 100.00               | 100.00             | 72.60               |
| Total expenditures paid  | <u>73,121.84</u>      | <u>73,121.84</u>   | <u>43,132.52</u>    | <u>256,066.60</u>    | <u>256,066.60</u>  | <u>221,144.21</u>   |
| Excess of revenues collected<br>over (under) expenditures<br>before adjustments to prior<br>year encumbrances  | <u>(22,459.72)</u>    | <u>(22,459.72)</u> | <u>11,753.39</u>    | <u>(69,470.73)</u>   | <u>(69,470.73)</u> | <u>(14,897.17)</u>  |
| Adjustments to prior year<br>encumbrances  | -                     | -                  | -                   | -                    | -                  | -                   |
| Other financing sources (uses)   |                       |                    |                     |                      |                    |                     |
| Operating transfers in   | -                     | -                  | -                   | -                    | -                  | -                   |
| Operating transfers out  | -                     | -                  | -                   | -                    | -                  | -                   |
| Total other financing<br>sources (uses)  | -                     | -                  | -                   | -                    | -                  | -                   |
| Excess (deficiency) of revenues and<br>other resources over expenditures<br>and other financing sources (uses) | <u>(22,459.72)</u>    | <u>(22,459.72)</u> | <u>11,753.39</u>    | <u>(69,470.73)</u>   | <u>(69,470.73)</u> | <u>(14,897.17)</u>  |
| Fund balances, restricted: beginning of year   | <u>22,459.72</u>      | <u>22,459.72</u>   | <u>22,459.72</u>    | <u>69,470.73</u>     | <u>69,470.73</u>   | <u>69,470.73</u>    |
| Fund balances, restricted: end of year   | <u>\$ -</u>           | <u>\$ -</u>        | <u>\$ 34,213.11</u> | <u>\$ -</u>          | <u>\$ -</u>        | <u>\$ 54,573.56</u> |

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

**OKAY SCHOOL DISTRICT I-1**  
**STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - REGULATORY BASIS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2011**

|   | Agency<br>Fund    |
|---|-------------------|
|   | Activity<br>Funds |
| <b>ASSETS</b>                                 |                   |
| Cash  | \$ 59,401.86      |
| Investments                                   | -                 |
| Due from other funds                          | -                 |
| Total assets                                  | \$ 59,401.86      |
| <b>LIABILITIES AND FUND EQUITY</b>            |                   |
| Liabilities:                                  |                   |
| Due to student, parent and booster activities | \$ 48,634.14      |
| Due to administrative activities              | 10,767.72         |
| Total liabilities                             | 59,401.86         |
| Fund balance:                                 |                   |
| Restricted                                    | -                 |
| Unassigned                                    | -                 |
| Total fund balance                            | -                 |
| Total liabilities and fund balances           | \$ 59,401.86      |

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

**OKAY SCHOOL DISTRICT I-1  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - REGULATORY BASIS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

|   | Agency Funds            |                          |                          | Balance<br>June 30, 2011 |
|---|-------------------------|--------------------------|--------------------------|--------------------------|
|   | Balance<br>July 1, 2010 | Cash Receipts            | Disbursements            |                          |
| <b>ACTIVITIES</b>                       |                         |                          |                          |                          |
| Student and parent booster activities   | 48,084.44               | 133,965.36               | 133,415.66               | 48,634.14                |
| Total activities                        | <u>48,084.44</u>        | <u>133,965.36</u>        | <u>133,415.66</u>        | <u>48,634.14</u>         |
| <b>ADMINISTRATIVE</b>                   |                         |                          |                          |                          |
| Administration                          | 1,945.89                | 12,327.50                | 11,107.07                | 3,166.32                 |
| Miscellaneous                           | 83.61                   | 75.00                    | 40.00                    | 118.61                   |
| Pictures                                | 3,849.08                | 832.18                   | 2,023.93                 | 2,657.33                 |
| Interest                                | 255.96                  | 155.52                   | 261.68                   | 149.80                   |
| High School Library                     | 1,318.03                | 167.12                   | 388.61                   | 1,096.54                 |
| Elementary library                      | 257.05                  | 1,812.55                 | 1,937.38                 | 132.22                   |
| Elementary vendors                      | 209.09                  | 273.00                   | 141.28                   | 340.81                   |
| Playground equipment                    | 6,503.96                | 9,356.34                 | 12,839.00                | 3,021.30                 |
| After School Care                       | 132.88                  | 406.00                   | 454.09                   | 84.79                    |
| Total administrative                    | <u>14,555.55</u>        | <u>25,405.21</u>         | <u>29,193.04</u>         | <u>10,767.72</u>         |
| <b>TOTAL - ALL AGENCY FUNDS</b>         | <u><u>62,639.99</u></u> | <u><u>159,370.57</u></u> | <u><u>162,608.70</u></u> | <u><u>59,401.86</u></u>  |
| <b>ASSETS</b>                           |                         |                          |                          |                          |
| Cash - all funds                        | 62,639.99               | 159,370.57               | 162,608.70               | 59,401.86                |
| Investments                             | -                       | -                        | -                        | -                        |
| Total assets                            | <u><u>62,639.99</u></u> | <u><u>159,370.57</u></u> | <u><u>162,608.70</u></u> | <u><u>59,401.86</u></u>  |
| <b>LIABILITIES</b>                      |                         |                          |                          |                          |
| Due to activities<br>and administrative | <u>62,639.99</u>        | <u>159,370.57</u>        | <u>162,608.70</u>        | <u>59,401.86</u>         |
| Total liabilities                       | <u><u>62,639.99</u></u> | <u><u>159,370.57</u></u> | <u><u>162,608.70</u></u> | <u><u>59,401.86</u></u>  |

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

**Steven F. Cundiff**  
*Certified Public Accountant, Inc.*  
205 West Seventh, Suite 201-A, P.O. Box 187  
Stillwater, Oklahoma 74076  
(405) 372-4822 FAX (405) 372-4828

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

The Honorable Board of Education  
Okay School District No. I-1  
Okay, Wagoner County, Oklahoma

We have audited the accompanying fund type and account group financial statements-regulatory basis of Okay School District No. I-1, Oklahoma as listed in the Table of Contents, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified due to a departure related to the omission of general fixed asset account groups with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education. 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 Okay School District No. I-1'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 Okay School District No. I-1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Okay School District No. I-1'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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

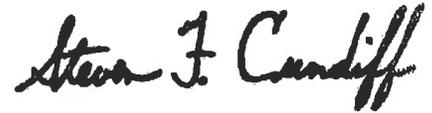
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Okay School District No. I-1'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*.

This report is intended solely for the information and use of the Board of Education and management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

November 14, 2011

A handwritten signature in black ink that reads "Steven F. Cundiff". The signature is written in a cursive style with a large, stylized "S" and "C".

Steven F. Cundiff, CPA Inc.

**Steven F. Cundiff**  
*Certified Public Accountant, Inc.*  
205 West Seventh, Suite 201-A, P.O. Box 187  
Stillwater, Oklahoma 74076  
(405) 372-4822 FAX (405) 372-4828

**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  
Okay School District, No. I-1  
Okay, Wagoner County, Oklahoma

Compliance

We have audited the compliance of Okay School District, No. I-1 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Okay School District, No. I-1'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 Okay School District, No. I-1's management. Our responsibility is to express an opinion on Okay School District, No. I-1'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 Okay School District, No. I-1'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 of Okay School District, No. I-1's compliance with those requirements.

In our opinion, Okay School District, No. I-1 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Okay School District, No. I-1 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 Okay School District, No. I-1's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on

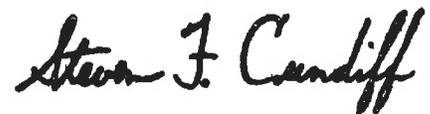
the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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, 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 the 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 Board of Education, State Department of Education, management and all applicable federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

November 14, 2011

A handwritten signature in black ink that reads "Steven F. Cundiff". The signature is written in a cursive style with a large, stylized "S" and "C".

Steven F. Cundiff, CPA, Inc.

**OKAY SCHOOL DISTRICT I-1  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

| Federal Grantor/Pass Through Grantor/Program Title | <u>Year</u> | <u>Federal<br/>CFDA Number</u> | <u>Amount of<br/>Expenditures</u> |
|--|-------------|--------------------------------|-----------------------------------|
| <b>Direct Program:</b>                             |             |                                |                                   |
| Title VII Indian Education                         | 6-30-11     | 84.060A                        | 49,594.00                         |
| Title VI – Rural School Achievement                | 6-30-11     | 84.358A                        | 863.46                            |
| <b>U.S. Department of Education</b>                |             |                                |                                   |
| Passed-through State Department of Education:      |             |                                |                                   |
| Title I Cluster:                                   |             |                                |                                   |
| Title I Basic                                      | 6-30-11     | 84.010                         | 125,924.42                        |
| ARRA Title I – Part A                              | 6-30-11     | 84.389                         | <u>25,762.25</u>                  |
| Total for Program (Cluster)                        |             |                                | <u>151,686.67</u>                 |
| Special Education                                  |             |                                |                                   |
| ARRA IDEA Part A                                   | 6-30-11     | 84.391                         | 12,586.37                         |
| REAP Cluster:                                      |             |                                |                                   |
| REAP Title IV- Drug Free                           | 6-30-11     | 84.186                         | 410.15                            |
| REAP Title II, Part D                              | 6-30-11     | 84.318                         | 728.54                            |
| REAP Title II, Part A                              | 6-30-11     | 84.367                         | <u>63,418.64</u>                  |
| Total for Program (Cluster)                        |             |                                | 64,557.33                         |
| ARRA Stabilization Cluster:                        |             |                                |                                   |
| ARRA Education Stabilization                       | 6-30-11     | 84.394                         | 105,621.00                        |
| ARRA GSF Textbook Stimulus                         | 6-30-11     | 84.397                         | 11,381.72                         |
| ARRA Education Jobs Fund                           | 6-30-11     | 84.410                         | <u>90,157.00</u>                  |
| Total for Program (Cluster)                        |             |                                | 207,159.72                        |
| <b>U.S. Department of Agriculture</b>              |             |                                |                                   |
| Passed-through State Department of Education:      |             |                                |                                   |
| Child Nutrition Cluster:                           |             |                                |                                   |
| School Breakfast Program-Cash Assistance           | 6-30-11     | 10.553                         | 27,387.54                         |
| National School Lunch Program:                     |             |                                |                                   |
| Cash Assistance                                    | 6-30-11     | 10.555                         | 103,730.84                        |
| Non-cash Assistance: Commodities                   | 6-30-11     | 10.555                         | <u>10,374.02</u>                  |
| National School Lunch Program Subtotal             |             |                                | <u>114,104.86</u>                 |
| Total for Program (Cluster)                        |             |                                | <u>141,492.40</u>                 |
| <b>Other Federal Assistance</b>                    |             |                                |                                   |
| Passed-through Wagoner County Flood Control        | 6-30-11     | 83.536                         | 377.91                            |
| Passed-through the Cherokee Nation JOM Program     | 6-30-11     | 15.130                         | <u>6,534.34</u>                   |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>        |             |                                | <b><u>\$ 634,852.20</u></b>       |

Note A: Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Okay School District and is presented on an other comprehensive basis of accounting conforming with the accounting practices prescribed or permitted by the Oklahoma State Department of Education which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, expenditures are recognized when an approved purchase order is issued.

Note B: Commodities representing non-cash expenditures have been included in the Schedule of Expenditures of Federal Awards which is an exception to the prescribed basis of accounting.

Note C: There were no amounts passed to subrecipients.

Note D: Grantor provides adequate insurance coverage against loss on assets purchased with Federal Awards.

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

**OKAY SCHOOL DISTRICT I-1  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued:

|  |  |
|--|--|
| With respect to conformity with<br>Generally Accepted Accounting Principles                                    | Adverse  |
| With respect to the use of Regulatory basis of accounting and<br>the omission of the general fixed asset group | Qualified - due to omission<br>of the general fixed asset<br>group |

Internal control over financial reporting:

|   |               |
|---|---------------|
| Material weakness(es) identified?   | No            |
| Reportable condition(s) identified<br>not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted?                           | No            |

**FEDERAL AWARDS**

Internal Control over major programs:

|   |               |
|---|---------------|
| Material weakness(es) identified?   | No            |
| Reportable condition(s) identified<br>not considered to be material weaknesses? | None reported |

|   |             |
|---|-------------|
| Type of auditor's report issued on compliance for major programs: | Unqualified |
|---|-------------|

|   |               |
|---|---------------|
| Any audit findings disclosed that are<br>required to be reported in accordance<br>with Circular A-133, Section .510(a)? | None reported |
|---|---------------|

Identification of major programs:

| <u>Name of Federal Program</u>           | <u>CFDA Number(s)</u> | <u>Expenditures</u> |            |
|--|-----------------------|---------------------|------------|
| ARRA Education Stabilization Cluster:    |                       |                     |            |
| ARRA Stabilization                       | 84.394                | \$ 105,621.00       |            |
| ARRA Education Jobs Fund                 | 84.410                | 90,157.00           |            |
| ARRA GSF Textbook Stimulus               | 84.397                | <u>11,381.72</u>    |            |
| Total for Program (Cluster)              |                       |                     | 207,159.72 |
| Child Nutrition Cluster:                 |                       |                     |            |
| School Breakfast program-Cash Assistance | 10.553                | \$ 27,387.54        |            |
| National School Lunch Program:           |                       |                     |            |
| Cash Assistance                          | 10.555                | 103,730.84          |            |
| Non-cash Assistance - Commodities        | 10.555                | 10,374.02           |            |
| School Lunch Program                     |                       | <u>114,104.86</u>   |            |
| Total for Program (Cluster)              |                       |                     | 141,492.40 |

|   |               |
|---|---------------|
| Dollar threshold used to distinguish between<br>Type A and Type B programs: | \$ 300,000.00 |
|---|---------------|

|  |    |
|--|----|
| Auditee qualified as low-risk auditee? | No |
|--|----|

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**OKAY SCHOOL DISTRICT I-1  
WAGONER COUNTY, OKLAHOMA  
SCHEDULE OF CURRENT YEAR AND PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

**Current Year Audit Findings:**

There were no audit findings in the current year.

**Prior Year Audit Findings:**

**ERATE Services**

**Background:** The Okay School District was approved as a 90% 10% match for the ERATE qualified expenditures. This is based on the free and reduced lunch counts for the Okay School District. The District's Grade School Principal has been designated as the ERATE Services Coordinator for the District. She completed all applications, evaluated proposals, and completed monitoring and follow-up of the ERATE services. During the school year ending June 30, 2005, applications (forms 471) were made by the District and approved by ERATE for the following needs of the District.

|   | Non-recurring<br>Expenditures | Monthly<br>Recurring<br>Expenditures | Total Costs         |
|---|-------------------------------|--------------------------------------|---------------------|
| CAT6 Drops, servers, port switches, fiber, support  | \$114,500.00                  |                                      | \$114,500.00        |
| Annual network maintenance agreement  |                               | \$ 28,000.00                         | 336,000.00          |
| Service for 100 CAT6 drops, one server, three<br>24 port switches, fiber, and Gold server support |                               |                                      |                     |
| Total annual cost   | <u>\$114,500.00</u>           | <u>\$ 336,000.00</u>                 | <u>\$450,500.00</u> |

The District was required to pay 10% of the total costs, and ERATE paid 90% of the cost directly to the vendor selected by the District. The District received proposals of services from vendors through the internet. A local vendor, Tech 2000, was selected to provide these services to the District.

The District paid the required 10% match of these costs as noted below.

|   |                     |             |                     |
|---|---------------------|-------------|---------------------|
| General fund PO #317                                    | Training on Network | \$ 4,000.00 |                     |
| General fund PO #345                                    | ERATE Services      | 3,062.93    |                     |
| General fund PO #346                                    | ERATE Services      | 726.01      |                     |
| General fund PO #388                                    | ERATE Services      | 6,000.00    |                     |
| General fund PO #412                                    | ERATE Services      | 11,011.00   |                     |
| Activity fund check #14356                              | ERATE Services      | 20,250.06   |                     |
| Total cost to the district                              |                     |             | \$ 45,050.00        |
| Total cost on behalf of the district paid by ERATE      |                     |             | 405,450.00          |
| Total cost of services provided to the district 2004-05 |                     |             | <u>\$450,500.00</u> |

**Finding #1:** Based on my observations of other school districts of similar size and discussion with vendors who provide similar services, I have concluded the monthly maintenance agreement appears to be excessive. A network with 100 CAT6 drops, one server, three switches, and fiber lines would be difficult to cost justify a \$28,000 per month service maintenance fee. (\$920.55 per day)

**Follow-up of Finding #1:** Nothing has been resolved regarding the unreasonable charges of this network maintenance agreement. This finding was investigated by the School Board's law firm. See Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Finding #2:** The proposal for ERATE services from the vendor were not documented by a contract approved by the School District's Board. The Principal/ERATE Coordinator stated she did not realize this was a contractual obligation requiring Board approval.

All contractual obligations must be pre-approved by the School District's Board.

**Follow-up of Finding #2:** The School Board, Superintendent, and school district's attorney, reminded the Principal/ERATE Coordinator that she did not have the statutory authority to commit the school to a binding contract. This finding was investigated by the School Board's law firm. See Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Background:** As noted above the District had a matching requirement of \$45,050.00. In order to meet this obligation, the Grade School Principal/ERATE Coordinator conducted a school district fund raiser. This fund raiser was approved by the Superintendent and involved selling candles.

|  | #          | Per Candle | Paid by | Total Sales          |
|--|------------|------------|---------|----------------------|
| Candles sold to five individuals                                       | 5          | \$ 8.50    | Checks  | \$ 42.50             |
| Candles sold to Principal/ERATE Coordinator<br>d.b.a. P. J. Industries | 82         | 30.33      | Check   | 2,487.00             |
| Candles sold to Hestin, Inc  | 250        | 29.00      | Cash    | 7,250.00             |
| Candles sold to Viking one   | 200        | 29.00      | Cash    | 5,800.00             |
| Candles sold to Gallion One, Inc                                       | 120        | 29.00      | Cash    | 3,480.00             |
| Candles sold to Crown Investments                                      | 137        | 29.00      | Cash    | 3,970.00             |
| Total  | <u>794</u> |            |         | <u>\$ 23,029.50</u>  |
| Initial cost of the candles:   | <u>794</u> | 3.50       |         | <u>\$ (2,779.00)</u> |
| Total profit on fund raiser for sale of candles                        |            |            |         | <u>\$ 20,250.50</u>  |
| Activity fund check #14356 written to Technovations June 29, 2005      |            |            |         | <u>\$ 20,250.06</u>  |

(To meet the district's 10% ERATE matching requirement, thereby allowing the vendor to bill the balance of the maintenance agreement to ERATE.)

|                                      |                      |
|--------------------------------------|----------------------|
| Total unbilled maintenance agreement | \$ 202,500.60        |
| 10% District's match                 | 20,250.06            |
| 90% ERATE portion allowable billing  | <u>\$ 182,250.54</u> |

**Finding #3:** One of the purchasers of the candles was the Principal/ERATE Coordinator, d.b.a. P.J. Industries. Per my inquiry as to why the Principal/ERATE Coordinator, would buy candles costing \$3.50 for a sales price of \$30.33, it was represented to me that her business was using the candles for promotional purposes in her business. She also noted she wanted to help the school district meet its matching requirements before the fiscal year ended and the 90% match would be lost or have to be resubmitted for the following year.

**Follow-up of Finding #3:** Nothing has been resolved regarding the fund raiser and the Principal/ERATE Coordinator regarding the motive for this transaction. One should note that the proceeds of the fund raiser in the amount of \$20,250.06 would have been available to the Elementary Activity fund if it had not been paid to the ERATE vendor. For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Finding #4:** The other four purchasers of candles paid \$29.00 per candle, very much above the \$8.50 price sold to other individuals. Per my inquiry as to why these businesses would be willing to pay such a high price for the candles, it was represented to me that these businesses were friends of the Principal/ERATE Coordinator, and had done this as a personal favor to her and the school district to help the district meet its 10% matching requirement for funding the maintenance service agreement.

**Follow-up of Finding #4:** Nothing has been resolved regarding the fund raiser and the Principal/ERATE Coordinator's business associates regarding the motive for this transaction. For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Finding #5:** The four businesses that purchased the candles, paid in cash \$7,250.00, \$5,800.00, \$3,480.00 and \$3,970.00 respectively, for a total cash payment of \$20,500.00. Per my inquiry as to why these businesses would buy the candles using cash instead of writing a check to document their purchase for tax reporting purposes, it was represented to me by the Principal/ERATE Coordinator that she did not know why the businesses chose to do this. She stated several of the companies were "construction companies" and probably dealt in "cash transactions". This is inconsistent with my observations and experiences in dealing with construction companies. I made inquiry of the activity fund custodian, as to what her observations were when this cash was brought in and receipted by her. She stated she remembered the cash bills to be new crisp \$100.00 bills. The nature of the currency receipted is inconsistent with a business who deals in cash transactions.

All cash was properly receipted and deposited timely by the activity fund custodian. The fund raiser was properly approved by the Superintendent in accordance with school board policy, and the Principal/ERATE Coordinator properly and accurately completed the Fund Raiser Internal Audit Form required by school board policy.

**Follow-up of Finding #5:** Nothing has been resolved regarding the cash nature of the questionable transaction, or the motive for this transaction.  
For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Background:** During my examination of the expenditures for the General Fund and the Activity Fund, I examined all of the invoices from the ERATE vendor, Tech 2000 also known as Technovations of Oklahoma.

**Findings #6:** All of the invoices examined noted "ERATE Service" and provided no detail as to what services were provided, when the services were provided, and how the amount billed to the school was calculated.

All invoices paid by the school district should include and document all services provided and when such services were provided.

**Follow-up of Finding #6:** Nothing has been resolved regarding the additional documentation needed for these questionable transactions.

For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Findings #7:** Per discussion with the Principal/ERATE Coordinator, she stated that all the services contracted with the ERATE vendor had not been completed by June 30, 2005. However, all services had been billed to the district and ERATE and had been paid by the district and ERATE. She stated these services will be completed by December 31, 2005.

Oklahoma School Districts are not allowed to prepay for services not received.

The Principal/ERATE Coordinator stated she understood the Federal ERATE Regulations were different from Oklahoma State Statutes.

**Follow-up of Finding #7:** Nothing has been resolved regarding the additional work needed to complete this engagement. Also, nothing has been resolved regarding the prepayment of services.

For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Finding #8:** In my examination of the warrants that had been sent to the vendor, Tech 2000, I noted one of the warrants, #927 dated December 31, 2004, had been altered. The original warrant had been prepared payable to Tech 2000. However, the warrant that was processed by the bank had been "over struck" and altered the payer to Technovations. None of the proposals or contracts from the ERATE provider related to Technovations. Upon my inquiry, the Principal/ERATE coordinator stated that Tech 2000 had financial difficulties and filed for bankruptcy. Technovations of Oklahoma was the new company set up by the same owner.

All payments should be made to the contracting vendor. If the contracting vendor files for bankruptcy, all assignments of the existing contracts must be approved by the School Board and the bankruptcy court. Failure of the District to get this documentation could make it liable to the bankruptcy trustee for all payments under the contract. Also, the school district's treasurer should never pay on an altered warrant. It should be returned to the bank to be charged back against the vendor's account.

**Follow-up of Finding #8:** The School District's administration has concluded this is a matter of semantics. The proper vendor received the warrant in question. The additional comments are for future reference when a similar situation occurs.

For additional discussion see Letter of Response provided by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law.

**Subsequent events:**

On November 14, 2005, the Oklahoma State Department of Education's Finance Department received the audit report dated September 17, 2005. Upon receipt of the report, Lu Norman concluded the ERATE monies was a direct Federal program and outside her scope for further investigation. However her office did make a call to the USAC ERATE hotline for whistle blowers for Public Schools and Libraries. As of August 11, 2006 they had not received any follow-up from the Federal government auditors. On August 25, 2006 it was discussed further with Lu Norman. She stated it was still undecided whether Sandy Garrett, State Superintendent of Schools, would ask the State Auditor and Inspector to do an investigative audit based on the audit findings and subsequent investigation by the School District's attorneys. She stated they were reluctant to spend additional State monies to recover Federal monies that are not passed through the State Department of Education.

On November 14, 2005, the Oklahoma State Auditor and Inspector received the audit report dated September 17, 2005. School District audits are outside their scope for follow-up unless an investigation is requested by the local District Attorney, local School Board, or petitioned by the patrons of the school district. As of August 11, 2006, the State Auditor was treating it as a local matter for the School Board to resolve.

On November 10, 2005, the school board hired the law firm, Rosenstein, Fist, and Ringold to conduct an investigation of the findings included in the audit report dated September 17, 2005. The law firm did not contact the auditing firm, did not make any inquiries of the auditor, nor review any of the auditor's working papers. The law firm personnel met with the School Board on January 26, 2006, in a 24 minute executive session due to the "issues raised that will seriously impair the Board's ability to conduct in the public interest a pending investigation." This executive session is permitted by Title 25 of the Oklahoma Statutes, Sec. 307 (B) (4).

On February 16, 2006, Kim A Bumstead, Audit Director with the Office of Inspector General, contacted our auditing firm and made general inquiries to the audit exception findings. He had read a local newspaper article reporting the audit presentation to the local School Board at their October 2005 meeting. He stated he had done a "newspaper internet search" looking for questioned costs and findings relating to ERATE monies. He requested a copy of the audit report which was sent to him at that time. He stated there was an audit backlog and audits were prioritized base on the dollar amount of the questioned costs. He did identify all Oklahoma School Districts that were provided services from Kenton Levings and his related companies using his SPIN identification number.

On June 8, 2006, the Principal/ERATE coordinator was rehired by the local School Board. On June 21, 2006, the Principal/ERATE coordinator submitted her letter of resignation which was excepted by the Board. Subsequently, on July 13, 2006, the local School Board employed the Principal/ERATE coordinator on a temporary contract for a period of 60 working days in the capacity of Advisory Consultant. This contract began July 3, 2006 and ended September 21, 2006.

This audit finding was presented as a case study at the Oklahoma Independent School District Auditor's Workshop Update in June, 2007 by Larry Lewis, with the law firm, Rosenstein, Fist, and Ringold.

On June 9th, 2008, an agent with the US Department of Education Office of Inspector General and an agent with the Department of the Treasury Internal Revenue Service met with the our auditing firm for an interview and made copies of some of the firm' audit workpapers.

In the fall of 2009, an Internal Revenue Service Agent discussed with our auditing firm the difficulty he was having investigating and documenting evidence of "kick backs", since all the transactions appear to have been done with cash. He stated he was unsure if he was going to have a successful audit outcome. He noted all findings would remain confidential.

On May 1, 2009, the Okay School District was notified that the ERATE funding for the 2008-09 year was on hold due to the ERATE audit for the year June 30, 2005. As a result of the "audit hold", the District does not know when it will receive its ERATE funding.

At the August, 2010 school board meeting, the Superintendent informed the School Board that he had been contacted by the Wagoner' County District Attorney's office and that some form of action is currently pending regarding their investigation into this matter.

**Current year subsequent events:**

In May 2011, the State Auditor and Inspector's office requested a copy of the Letter of Response issued by Larry Lewis, Rosenstein, Fist & Ringold, Attorneys at Law from our office. The State Auditor and Inspector had no additional comment at that time.

On May 13, 2011, AT&T released E-Rate monies from 2008-09 in the amount of \$14,153.84 and from 2009-10 in the amount of \$11,758.57. This money had been withheld until this E-Rate issue was resolved. It appears this resolves all the issues that were pending regarding the School District and E-Rate monies. Individual prosecution is the only unresolved issue. Therefore, it is our conclusion that this audit finding as it relates to the School District has been resolved.

**OKAY SCHOOL DISTRICT NO. I-1  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2011**

| Description  | Project Code | Revenue Code | CFDA #  | Grant Award   | Grant        |               | Receipts      | Expenditures | Grant Receivable 6/30/2011 |
|--|--------------|--------------|---------|---------------|--------------|---------------|---------------|--------------|----------------------------|
|  |              |              |         |               | 6/30/2010    | 6/30/2011     |               |              |                            |
| <b>US Department of Education</b>                      |              |              |         |               |              |               |               |              |                            |
| Direct programs:                                       |              |              |         |               |              |               |               |              |                            |
| Title VII Indian Education                             | 561          | 4140         | 84.060A | \$ 49,594.00  | \$ -         | \$ 43,901.85  | \$ 49,594.00  | \$ 5,692.15  |                            |
| Title VI Small Rural School Achievement Program        | 568          | 4180         | 84.358A | 20,533.61     | -            | 858.85        | 863.46        | 4.61         |                            |
| Passed through Oklahoma State Department of Education: |              |              |         |               |              |               |               |              |                            |
| ARRA Education Stabilization Cluster                   |              |              |         |               |              |               |               |              |                            |
| ARRA Education Stabilization                           | 782          | 4686         | 84.394  | 105,621.00    | -            | 105,621.00    | 105,621.00    | -            |                            |
| ARRA GSF Textbook Stimulus (Note C)                    | 787          | 4687         | 84.397  | 11,381.72     | (11,381.72)  | -             | 11,381.72     | -            |                            |
| ARRA Education Jobs Fund                               | 790          | 4683         | 84.410  | 90,157.00     | -            | 90,157.00     | 90,157.00     | -            |                            |
| Total for Program (Cluster)                            |              |              |         | 207,159.72    | (11,381.72)  | 195,778.00    | 207,159.72    | -            |                            |
| <b>REAP Cluster</b>                                    |              |              |         |               |              |               |               |              |                            |
| REAP Title IV Drug Free                                | 586          | 4441         | 84.186  | 410.15        | 2,402.24     | 2,812.39      | 410.15        | -            |                            |
| REAP Title II, Part D - Tech.                          | 546          | 4272         | 84.318  | 308.86        | 972.61       | 1,281.47      | 308.86        | -            |                            |
| REAP Title II, Part D - Tech.                          | 548          | 4272         | 84.318  | 419.68        | -            | 419.68        | 419.68        | -            |                            |
| REAP Title II, Part A                                  | 541          | 4271         | 84.367  | 65,040.14     | -            | 63,418.64     | 63,418.64     | -            |                            |
| Total for Program (Cluster)                            |              |              |         | 66,178.83     | 3,374.85     | 67,932.18     | 64,557.33     | -            |                            |
| <b>Title I Cluster</b>                                 |              |              |         |               |              |               |               |              |                            |
| Title I  | 511          | 4210         | 84.010  | 126,556.88    | 7,156.15     | 133,080.57    | 125,924.42    | -            |                            |
| ARRA Title I Part A                                    | 516          | 4211         | 84.389  | 26,358.63     | 19,739.74    | 45,501.99     | 25,762.25     | -            |                            |
| Total for Program (Cluster)                            |              |              |         | 152,915.51    | 26,895.89    | 178,582.56    | 151,686.67    | -            |                            |
| <b>Special Education Cluster:</b>                      |              |              |         |               |              |               |               |              |                            |
| ARRA IDEA Flow Part B                                  | 622          | 4320         | 84.391  | 12,586.37     | 14,261.47    | 25,780.60     | 12,586.37     | 1,067.24     |                            |
| ARRA Preschool   | 643          | 4330         | 84.392  | -             | 789.68       | 789.68        | -             | -            |                            |
| Total for Program (Cluster)                            |              |              |         | 12,586.37     | 15,051.15    | 26,570.28     | 12,586.37     | 1,067.24     |                            |
| <b>US Department of Agriculture</b>                    |              |              |         |               |              |               |               |              |                            |
| Passed through State Department of Education           |              |              |         |               |              |               |               |              |                            |
| Child Nutrition Cluster:                               |              |              |         |               |              |               |               |              |                            |
| School Breakfast Program - cash assistance             | 385          | 4720         | 10.553  | 27,387.54     | -            | 27,387.54     | 27,387.54     | -            |                            |
| National School Lunch Program:                         |              |              |         |               |              |               |               |              |                            |
| Cash assistance  | 385          | 4710         | 10.555  | 103,730.84    | -            | 103,730.84    | 103,730.84    | -            |                            |
| Non-cash assistance: commodities                       | 385          |              | 10.555  | 10,374.02     | -            | 10,374.02     | 10,374.02     | -            |                            |
| Total National School Lunch Program                    |              |              |         | 114,104.86    | -            | 114,104.86    | 114,104.86    | -            |                            |
| Total for Program (Cluster)                            |              |              |         | 141,492.40    | -            | 141,492.40    | 141,492.40    | -            |                            |
| <b>Other Federal Assistance</b>                        |              |              |         |               |              |               |               |              |                            |
| Passed through Wagner County Flood Control             | 770          | 4162         | 83.536  | 377.91        | -            | 377.91        | 377.91        | -            |                            |
| Passed through the Cherokee Nation JOM Program         | 563          | 4550         | 15.130  | 8,550.00      | 4,120.02     | 7,559.00      | 6,534.34      | 3,095.36     |                            |
| Total Federal Financial Assistance                     |              |              |         | \$ 659,388.35 | \$ 38,060.19 | \$ 663,053.03 | \$ 634,852.20 | \$ 9,859.36  |                            |

Note A: Food Distribution: Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note B: This schedule was prepared using the regulatory basis of accounting consistent with the preparation of the combined financial statements, except for the nonmonetary assistance noted in Note A.

Note C: The original payment notice from the Oklahoma Department of Education showed revenue coding for all textbook monies to be Project Code 333 and Source Code 3420. After the OCAS data was certified, the Oklahoma Department of Education determined that part of the textbook monies were actually federal monies and should have been coded to Project Code 787 and Source Code 4687. Thus, the federal grant receivable has been restated at the beginning of the year to show the change in federal grant receivable/payable.

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

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

State of Oklahoma

County of Payne

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 Okay Public Schools for the audit year 2010-2011.

Steven F. Cundiff, C.P.A., Inc.  
Auditing Firm

by Steven F. Cundiff  
Authorized Agent

Subscribed and sworn to before me this 14<sup>th</sup> day of November, 2011.

Mary Cundiff  
Notary Public

My Commission Expires: 9-27-13 #01016317



Okay School District No. I-1  
 Schedule of Statutory, Fidelity, and Honest Bonds  
 For the Year Ending June 30, 2011

| <u>Position</u>            | <u>Bonded By</u>   | <u>Policy Number</u> | <u>Term</u>                    | <u>Amount</u> |
|----------------------------|--------------------|----------------------|--------------------------------|---------------|
| Superintendent             | Western Surety Co. | 0601-69965246        | 8-24-04/Indefinite             | 100,000.00    |
| Treasurer                  | Western Surety Co. | SCH3522808           | 7-6-09/7-6-10<br>7-6-10/7-6-11 | 100,000.00    |
| Encumbrance Clerk          | Western Surety Co. | 0601-69965246        | 8-24-04/Indefinite             | 100,000.00    |
| Activity Fund<br>Custodian | Western Surety Co. | 0601-69965246        | 8-24-04/Indefinite             | 5,000.00      |