

# State Auditor & Inspector

FILED

AUG 15 2011

State Auditor & Inspector

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

STERLING INDEPENDENT SCHOOL DISTRICT NO. 1-3,  
COMANCHE COUNTY, OKLAHOMA

RECEIPT #  
16441

JUNE 30, 2011

Audited by

SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
JUNE 30, 2011

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JUNE 30, 2011

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Board of Education  
Sterling School District No. I-3  
Sterling, Oklahoma

We have audited the accompanying fund type and account group financial statements of Sterling School District No. I-3 (the District), Comanche County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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

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, the financial

position of the District as of June 30, 2011, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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.

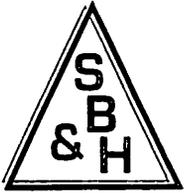
Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements within the combined financial statements. The combining fund statements and schedules and other schedules as listed in the table of contents under other supplementary information are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

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

July 22, 2011



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

The Honorable Board of Education  
Sterling School District No. I-3  
Sterling, Oklahoma

We have audited the combined financial statements – regulatory basis of Sterling School District (the District) No. I-3, Sterling, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated July 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

#### Compliance and Other Matters

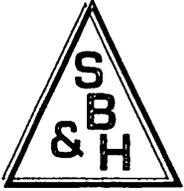
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

July 22, 2011



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

The Honorable Board of Education  
Sterling School District No. I-3  
Sterling, Oklahoma

**Compliance**

We have audited the compliance of Sterling School District (the District) No. I-3, Sterling, Oklahoma, 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. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District 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. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

### Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted no matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we observed no material weaknesses.

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

*Sanders, Bledsoe & Hewett*

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

July 22, 2011

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2011

There were no prior year reportable conditions.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2011

**Section 1** - Summary of Auditor's Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no instances of noncompliance which were material to the financial statements.
3. The audit disclosed no reportable conditions in the internal controls over financial reporting which were considered to be material weaknesses.
4. An unqualified opinion report was issued on the compliance of major programs.
5. The audit disclosed no reportable conditions in the internal controls over major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major are the Title I Programs (84.010, 84.385), the IDEA-B Special Education Programs (84.027, 84.173, 84.391), the Education Jobs Fund (84.410), and the State Fiscal Stabilization Fund (84.394), which were clustered in determination.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The auditee was determined not to be a low-risk auditee.

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

None

**Section 3** – Findings and questioned costs for federal awards:

None

**COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2011

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUSTS AND AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>							
Cash	\$ 320,174	175,963	104,417	365,721	77,421		1,043,696
Investments	300,000	10,000					310,000
Amounts available in debt service						5,788	5,788
Amount to be provided for retirement of long-term debt						1,418,923	1,418,923
<b>Total Assets</b>	<b>\$ 620,174</b>	<b>185,963</b>	<b>104,417</b>	<b>365,721</b>	<b>77,421</b>	<b>1,424,711</b>	<b>2,778,407</b>
<u>LIABILITIES AND FUND EQUITY</u>							
Liabilities:							
Warrants payable	\$ 59,486	3,165		30,763			93,414
Encumbrances	6,773	11,733		188,195			206,701
Unmatured obligations			98,629				98,629
Funds held for school organizations					77,421		77,421
Long-term debt:							
Capital leases						599,711	599,711
Bonds payable						825,000	825,000
<b>Total liabilities</b>	<b>66,259</b>	<b>14,898</b>	<b>98,629</b>	<b>218,958</b>	<b>77,421</b>	<b>1,424,711</b>	<b>1,900,876</b>
Fund Equity:							
Cash fund balances	553,915	171,065	5,788	146,763	0	0	877,531
<b>Total Liabilities and Fund Equity</b>	<b>\$ 620,174</b>	<b>185,963</b>	<b>104,417</b>	<b>365,721</b>	<b>77,421</b>	<b>1,424,711</b>	<b>2,778,407</b>

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

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

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	
<b>Revenues Collected:</b>					
Local sources	\$ 432,706	108,758	108,157		649,621
Intermediate sources	62,461				62,461
State sources	1,950,003	16,108			1,966,111
Federal sources	391,229	160,577			551,806
Interest earnings	8,308	1,350	568	471	10,697
Non-revenue receipts	15,778	117			15,895
<b>Total revenues collected</b>	<b>2,860,485</b>	<b>286,910</b>	<b>108,725</b>	<b>471</b>	<b>3,256,591</b>
<b>Expenditures:</b>					
Instruction	1,758,657				1,758,657
Support services	897,742	32,457		197,558	1,127,757
Operation of non-instructional services	10,636	197,693			208,329
Facilities acquisition & construction services	95,615	53,404		31,150	180,169
Other outlays:					
Debt service requirements			107,257		107,257
Correcting entry	7,278	117			7,395
Repayments		46			46
<b>Total expenditures</b>	<b>2,769,928</b>	<b>283,717</b>	<b>107,257</b>	<b>228,708</b>	<b>3,389,610</b>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	90,557	3,193	1,468	(228,237)	(133,019)
<b>Other financing sources (uses):</b>					
Adjustments to prior year encumbrances	7,166	36			7,202
Bond proceeds				375,000	375,000
<b>Total other financing sources (uses)</b>	<b>7,166</b>	<b>36</b>	<b>0</b>	<b>375,000</b>	<b>382,202</b>
Excess of revenues collected over (under) expenditures	97,723	3,229	1,468	146,763	(125,817)
Cash fund balances, beginning of year	456,192	167,836	4,320	0	628,348
Cash fund balances, end of year	<b>\$ 553,915</b>	<b>171,065</b>	<b>5,788</b>	<b>146,763</b>	<b>877,531</b>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues Collected:</b>			
Local sources	\$ 319,436	432,706	113,270
Intermediate sources	54,888	62,461	7,573
State sources	1,901,893	1,950,003	48,110
Federal sources	248,155	391,229	143,074
Interest earnings	8,000	8,308	308
Non revenue receipts		15,778	15,778
Total revenues collected	<u>2,532,372</u>	<u>2,860,485</u>	<u>328,113</u>
<b>Expenditures:</b>			
Instruction	1,763,511	1,758,657	4,854
Support services	892,888	897,742	(4,854)
Operation of non-instructional services	22,113	10,636	11,477
Facilities acquisition & construction services	84,138	95,615	(11,477)
<b>Other outlays:</b>			
Correcting entry	7,278	7,278	
Other uses	218,636		218,636
Total expenditures	<u>2,988,564</u>	<u>2,769,928</u>	<u>218,636</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(456,192)	90,557	546,749
Adjustments to prior year encumbrances	<u>0</u>	<u>7,166</u>	<u>7,166</u>
Excess of revenues collected over (under) expenditures	(456,192)	97,723	553,915
Cash fund balance, beginning of year	<u>456,192</u>	<u>456,192</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>553,915</u>	<u>553,915</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues Collected:</b>				
Local sources	\$ 100,314	100,314	108,758	8,444
State sources	19,028	19,028	16,108	(2,920)
Federal sources	103,506	103,506	160,577	57,071
Interest earnings			1,350	1,350
Non-revenue receipts			117	117
Total revenues collected	<u>222,848</u>	<u>222,848</u>	<u>286,910</u>	<u>64,062</u>
<b>Expenditures:</b>				
Support services	32,457	32,457	32,457	
Operation of non-instructional services	197,693	197,693	197,693	
Facilities acquisition & construction services	53,404	53,404	53,404	
Other outlays:				
Correcting entry	117	117	117	
Other uses	106,967	106,967		106,967
Repayments	46	46	46	
Total expenditures	<u>390,684</u>	<u>390,684</u>	<u>283,717</u>	<u>106,967</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(167,836)	(167,836)	3,193	171,029
Adjustment to prior year encumbrances	<u>0</u>	<u>0</u>	<u>36</u>	<u>36</u>
Excess of revenues collected over (under) expenditures	(167,836)	(167,836)	3,229	171,065
Cash fund balances, beginning of year	<u>167,836</u>	<u>167,836</u>	<u>167,836</u>	<u>0</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>171,065</u>	<u>171,065</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 102,937	108,157	5,220
Interest		568	568
Total revenues collected	102,937	108,725	5,788
Requirements:			
Bonds	90,000	90,000	
Coupons	17,257	17,257	
Total expenditures	107,257	107,257	0
Excess of revenue collected over (under) expenditures	(4,320)	1,468	5,788
Cash fund balance, beginning of year	4,320	4,320	0
Cash fund balance, end of year	\$ 0	5,788	5,788

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

**NOTES TO COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Sterling Public School Independent District No. I-3 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

**A. Reporting Entity**

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially Independent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education composed of elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District’s reporting entity.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

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

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: Governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.”

**Governmental Fund Types**

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

General Fund – The general fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds.

Building Fund – The building fund consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing, or maintaining school buildings and for purchasing furniture, equipment and computer software to be used on or for school district property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire and casualty insurance premiums for school facilities, for purchasing security systems, and for paying salaries of security personnel.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

B. Fund Accounting - cont'd

Co-op Fund – The co-op fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school districts. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs.

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

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

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

**Fiduciary Fund Types**

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

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintain any expendable trust funds during the 2010-11 fiscal year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

B. Fund Accounting – cont'd

organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

Medical Insurance Fund – The medical insurance fund accounts for revenues and expenditures for all types of self-funded medical insurance coverage.

Workers Compensation Fund – The workers compensation fund accounts for revenues and expenditures for workers compensation claims.

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

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

**Account Groups**

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

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

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

**Memorandum Only - Total Column**

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

**C. Basis of Accounting**

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

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

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

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

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

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

The District has not maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by accounting principles generally accepted in the United States, is not included in the combined financial statements – regulatory basis.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is not reported as an expenditure and a fund liability of the governmental fund that will pay it. In addition, the non-current portion of vested accumulated vacation is not recorded in the general long-term debt account group.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

C. Basis of Accounting – cont'd

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

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

E. Assets, Liabilities and Fund Equity

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

Investments – The District is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

E. Assets, Liabilities and Fund Equity – cont'd

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

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is not presented.

Warrants Payable – Warrants are issued to meet the obligations for goods and services provided to the District. The District recognizes a liability for the amount of outstanding warrants that have yet to be redeemed by the District's treasurer.

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

Unmatured Obligations – The unmatured obligations represent the total of all annual accruals for both principal and interest, based on the lengths of the bonds and/or judgments, less all principal and interest payments through the balance sheet date in accordance with the regulatory basis of accounting.

Funds Held for School Organizations – Funds held for school organizations represent the funds received or collected from students or other cocurricular and extracurricular activities conducted in the District, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Equity – cont'd

Cash Fund Balance – Cash fund balance represents the funds not encumbered by purchase orders, legal contracts, outstanding warrants and unmatured obligations.

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. The District is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the District. These property taxes are distributed to the District's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made in a timely manner, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1, of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

Intermediate Revenues - Revenues from intermediate sources are the amounts of money from funds collected by an intermediate administrative unit, or a political subdivision between the District and the state, and distributed to Districts in amounts that differ in proportion to those which are collected within such systems.

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the Districts. After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

F. Revenue and Expenditures – cont'd

treated as reductions from or additions to the revenue of the year when the adjustment is made.

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

The aforementioned state revenues are apportioned to the District's general fund.

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

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

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

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

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

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving cocurricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

teacher assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

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

Facilities Acquisition and Construction Services Expenditures – Consist of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvements to sites.

Other Outlays Expenditures – A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest).

Other Uses Expenditures – This includes scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditures for self-funded employee benefit programs administered either by the District or a third party administrator.

Repayment Expenditures – Repayment expenditures represent checks/warrants issued to outside agencies for refund or restricted revenue previously received for overpayment, non-qualified expenditures and other refunds to be repaid from District funds.

Inter-fund 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.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

F. Revenue and Expenditures – cont'd

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2010-11 fiscal year.

2. **CASH AND INVESTMENTS**

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks, and trust companies; and warrants, bonds or judgments of the District.

Cash – The District's bank balance of deposits and cash pools at June 30, 2011, was \$945,849. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2011, the District's investments consisted certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$310,000.

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

*Credit risk – Investments* – Credit risk is the risk that the issuer or other counterparty to and investment will not fulfill its obligations. Investments held by the District in investment pools (sweep accounts) are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are held with Liberty National Bank and First National Bank

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

**2. CASH AND INVESTMENTS – cont’d**

of Fletcher and are rated AAA by Standard and Poor’s. The District does not have a formal policy limiting its exposure arising from concentration of investments.

**3. INTERFUND RECEIVABLES AND PAYABLES**

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

**4. GENERAL LONG-TERM DEBT**

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District’s voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years of the date of issue.

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

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

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2010	\$ 540,000	427,054	967,054
Additions	375,000	250,000	625,000
Retirements	(90,000)	(77,343)	(167,343)
Balance, June 30, 2011	<u>\$ 825,000</u>	<u>599,711</u>	<u>1,424,711</u>

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

General Obligation Bonds:

Building Bonds, Series 2007, original issue \$600,000, interest rate of 3.75% to 5.00%, due in an initial installment of \$60,000, and annual payments of \$90,000, final payment due 7-01-15	Amount <u>Outstanding</u>  \$ 450,000
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INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

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

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

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Combined Purpose Bonds, Series 2011, original issue \$375,000, interest rate of 1.10% to 2.00%, due in an initial installment of \$75,000, and annual payments of \$100,000, final payment due 5-01-16	\$ 375,000
<u>Capital Leases:</u>	
Lease purchase for equipment and renovations, dated 12-9-02, totaling \$250,000, interest of 1.65%, with principal and interest installments of \$29,125.	50,000
Lease purchase for classroom addition, dated 8-14-07, totaling \$450,000, interest rate of 4.55%, due in annual principal and interest payments of \$68,373	299,711
QZAB lease purchase, dated 7-08-10, totaling \$250,000, due in annual principal and interest installments of varying amounts	<u>250,000</u>
<b>Total</b>	<b><u>\$ 1,424,711</u></b>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 187,726	59,479	247,205
2013	266,218	52,257	318,475
2014	269,824	39,851	309,675
2015	274,548	30,856	305,404
2016	279,395	21,364	300,759
2017-2021	147,000	34,939	181,939
<b>Total</b>	<b>\$ 1,424,711</b>	<b>238,746</b>	<b>1,663,457</b>

Interest paid on general long-term debt incurred during the 2010-11 fiscal year totaled \$41,996.

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

Basis of Accounting

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

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. The District is required to contribute 10.5% of applicable compensation reduced by revenues the System received from the natural gas tax. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2010-11 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

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

participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Annual Pension Cost

The District's total contributions for 2011, 2010 and 2009 were \$269,438, \$283,846 and \$163,398, respectively.

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

**6. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**7. CONTINGENCIES**

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2010-11 fiscal year. The revised OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than \$500,000 in federal awards.

Litigation

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

**COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 JUNE 30, 2011

	BUILDING FUND	CHILD NUTRITION FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 141,178	34,785	175,963
Investments		10,000	10,000
	\$ 141,178	44,785	185,963
<b>Total Assets</b>	<b>\$ 141,178</b>	<b>44,785</b>	<b>185,963</b>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$ 1,324	1,841	3,165
Encumbrances	11,733		11,733
Total Liabilities	13,057	1,841	14,898
Fund Equity:			
Cash fund balances	128,121	42,944	171,065
<b>Total Liabilities and Fund Equity</b>	<b>\$ 141,178</b>	<b>44,785</b>	<b>185,963</b>

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

	BUILDING FUND	CHILD NUTRITION FUND	TOTAL
<b>Revenues Collected:</b>			
Local sources	\$ 46,885	61,873	108,758
State sources		16,108	16,108
Federal sources	45,339	115,238	160,577
Interest earnings	876	474	1,350
Non-revenue receipts		117	117
Total revenues collected	<u>93,100</u>	<u>193,810</u>	<u>286,910</u>
<b>Expenditures:</b>			
Support services	32,457		32,457
Operation of non-instructional services		197,693	197,693
Facilities acquisition & construction services	53,404		53,404
Other outlays:			
Correcting entry		117	117
Repayments		46	46
Total expenditures	<u>85,861</u>	<u>197,856</u>	<u>283,717</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	7,239	(4,046)	3,193
Adjustment to prior year encumbrances	<u>36</u>	<u>0</u>	<u>36</u>
Excess of revenues collected over (under) expenditures	7,275	(4,046)	3,229
Cash fund balances, beginning of year	<u>120,846</u>	<u>46,990</u>	<u>167,836</u>
Cash fund balances, end of year	<u>\$ 128,121</u>	<u>42,944</u>	<u>171,065</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - BUDGET AND ACTUAL COMPARISON  
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	BUILDING FUND			CHILD NUTRITION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues Collected:						
Local sources	\$ 42,581	42,581	46,885	\$ 57,733	57,733	61,873
State sources				19,028	19,028	16,108
Federal sources			45,339	103,506	103,506	115,238
Interest earnings			876			474
Non-revenue receipts						117
Total revenues collected	<u>42,581</u>	<u>42,581</u>	<u>93,100</u>	<u>180,267</u>	<u>180,267</u>	<u>193,810</u>
Expenditures:						
Support services	32,457	32,457	32,457			
Operation of non-instructional services				197,693	197,693	197,693
Facilities acquisition & construction services	53,404	53,404	53,404			
Other outlays:						
Correcting entry				117	117	117
Other uses	77,566	77,566		29,401	29,401	
Repayments				46	46	46
Total expenditures	<u>163,427</u>	<u>163,427</u>	<u>85,861</u>	<u>227,257</u>	<u>227,257</u>	<u>197,856</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(120,846)	(120,846)	7,239	(46,990)	(46,990)	(4,046)
Adjustment to prior year encumbrances	<u>0</u>	<u>0</u>	<u>36</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of revenues collected over (under) expenditures	(120,846)	(120,846)	7,275	(46,990)	(46,990)	(4,046)
Cash fund balances, beginning of year	<u>120,846</u>	<u>120,846</u>	<u>120,846</u>	<u>46,990</u>	<u>46,990</u>	<u>46,990</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>128,121</u>	<u>\$ 0</u>	<u>0</u>	<u>42,944</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS  
 JUNE 30, 2011

	2011 BUILDING BOND FUND	2011 TRANSP. BOND FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 164,710	201,011	365,721
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$ 30,650	113	30,763
Encumbrances	18,164	170,031	188,195
Total liabilities	48,814	170,144	218,958
Fund Equity:			
Cash fund balances	115,896	30,867	146,763
Total Liabilities and Fund Equity	\$ 164,710	201,011	365,721

INDEPENDENT SCHOOL DISTRICT NO. I-15, COMANCHE COUNTY  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	2011 BUILDING BOND FUND	2011 TRANSP. BOND FUND	TOTAL
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues Collected:			
Interest earnings	\$          210	261	471
Expenditures:			
Support services	18,164	179,394	197,558
Facilities acquisition & construction services	<u>          31,150</u>	<u>                  </u>	<u>          31,150</u>
Total expenditures	<u>          49,314</u>	<u>         179,394</u>	<u>         228,708</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(49,104)	(179,133)	(228,237)
Other financing sources (uses):			
Bond proceeds	<u>         165,000</u>	<u>         210,000</u>	<u>         375,000</u>
Excess of revenues collected over (under) expenditures	115,896	30,867	146,763
Cash fund balances, beginning of year	<u>                  0</u>	<u>                  0</u>	<u>                  0</u>
Cash fund balances, end of year	<u><u>          \$  115,896</u></u>	<u><u>          30,867</u></u>	<u><u>         146,763</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
 AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

<u>ASSETS</u>	<u>BALANCE 7-01-10</u>	<u>ADDITIONS</u>	<u>NET TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE 6-30-11</u>
Cash	\$ 56,554	245,534	0	224,667	77,421
<u>LIABILITIES</u>					
Funds held for school organizations:					
General	\$ 2,590	9,607	178	9,952	2,423
Athletics	4,131	42,696	1,153	38,483	9,497
FCCLA SW Dist	1,182	1,440		1,635	987
FCA	0	946		556	390
Flower Fund	117	440		436	121
FFA	3,460	14,679		15,567	2,572
FCCLA	284	19,416		18,938	762
Academic Team	26	386		388	24
Pool	5,850	14,258		12,787	7,321
AG Scholarship	0	8,000		0	8,000
Student Council	823	1,779		1,955	647
Technology Student Assoc	561	5,053	200	3,546	2,268
Library Book Fair	244	7,654		6,355	1,543
High School Cheer	695	1,633		1,883	445
Yearbook	6,836	8,978		7,400	8,414
Elementary	5,228	23,141	683	27,477	1,575
Spanish Club	0	517		192	325
Junior High Cheer	15	610		560	65
Teacher/Support of Year	1	200		200	1
2010 Seniors	178	0	(178)	0	0
2011 Seniors	18,010	21,580		38,581	1,009
2012 Seniors	3,345	49,531	(2,036)	28,672	22,168
2013 Seniors	1,099	10,773		8,226	3,646
2014 Seniors	1,185	700		549	1,336
Music	307	72		163	216
2015 Seniors	387	457		83	761
2016 Seniors	0	988		83	905
Total Liabilities	\$ 56,554	245,534	0	224,667	77,421

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/2010	Revenue Collected	Total Expenditures	Balance at 6/30/2011
<u>U.S. Department of Education:</u>							
Indian Education	84.060	S060A100575	12,233		12,233	12,233	
Indian Education 2009-10 - Note	84.060	S060A090575		1,107	1,107		
Impact Aid	84.041	S041B114206	32,064		32,064	32,064	
Small Rural School Achievement Prgm	84.358	S358A102505	30,175		30,175	30,175	
Sub Total			<u>74,472</u>	<u>1,107</u>	<u>75,579</u>	<u>74,472</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
*Title I	84.010		66,010		54,017	64,389	10,372
Title I 2009-10 - Note	84.010			8,993	8,993		
*Title I, ARRA	84.389		6,939		6,939	6,939	
Title I, ARRA 2009-10 - Note	84.389			1,530	1,530		
Title II, Part A	84.367		18,531		18,531	18,531	
Title II, Part D	84.318		211		211	211	
*IDEA-B Flow Through	84.027		72,159		59,779	70,452	10,673
IDEA-B Flow Through 2009-10 - Note	84.027			15,767	15,767		
*IDEA-B Flow Through, ARRA	84.391		18,887		15,138	18,887	3,749
IDEA-B Flow Through, ARRA 2009-10 - Note	84.391			15,077	15,077		
*IDEA-B Pre-school	84.173		2,169		2,169	2,169	
*State Fiscal Stabilization Fund	84.394		91,607		91,607	91,607	
*Education Jobs	84.410		78,195		57,955	78,195	20,240
Sub Total			<u>354,708</u>	<u>41,367</u>	<u>347,713</u>	<u>351,380</u>	<u>45,034</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education:</u>							
Child Nutrition Programs:							
School breakfast program	10.553				24,726	24,726	
National school lunch program	10.555				90,512	90,512	
Sub Total					<u>115,238</u>	<u>115,238</u>	
<u>Passed Through Department of Human Services:</u>							
Non-Cash Assistance-							
Commodities - Note 1	10.555				11,949	11,949	
<u>Other Federal Assistance:</u>							
QZAB IRS Subsidy	na		13,275	0	13,275	0	0
Total Federal Assistance			<u>\$ 442,455</u>	<u>42,474</u>	<u>563,754</u>	<u>553,039</u>	<u>45,034</u>

\* - Major programs

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

Note 1 - Commodities received by the District in the amount of \$11,949 are of a non-monetary nature and therefore the total revenue will not agree with the financial statements by this amount.

INDEPENDENT SCHOOL DISTRICT NO. 1-3, COMANCHE COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2011

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
CNA Surety -				
Westen Surety Company	Treasurer	14534323	\$ 100,000	11/1/10 - 11/1/11
	Superintendent	70756247	100,000	7/1/10 - 7/1/11
	Encumbrance Clerk	68384219	15,000	8/25/10 - 8/25/11
	Activity Fund Custodians	68384219	15,000	8/25/10 - 8/25/11
	Child Nutrition Custodians	68384219	15,000	8/25/10 - 8/25/11
	Minutes Clerk	68384219	15,000	8/25/10 - 8/25/11
	Principals	68384219	15,000	8/25/10 - 8/25/11
	Instructors & Sponsors	68384219	15,000	8/25/10 - 8/25/11

DEPENDENT SCHOOL DISTRICT NO. I-3, COMANCHE COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011

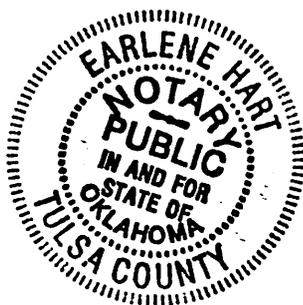
State of Oklahoma            )  
  ) ss  
County of Tulsa            )

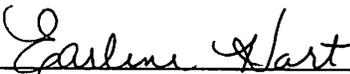
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Sterling Public Schools for the audit year 2010-11.

Sanders, Bledsoe & Hewett,  
Certified Public Accountants, LLP  
Auditing Firm

By   
Authorized Agent

Subscribed and sworn to before me  
This 22<sup>nd</sup> day of July, 2011



  
Notary Public (or Clerk or Judge)

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



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

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

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

July 22, 2011

Ms. Julie Poteete, Supt.  
Sterling Public Schools  
P.O. Box 158  
Sterling, Oklahoma 73567

Dear Ms. Poteete:

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

**No Audit Exceptions**

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

Sincerely,

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP