

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

**VALLIANT INDEPENDENT SCHOOL DISTRICT NO. I-11,  
McCURTAIN COUNTY, OKLAHOMA**

**JUNE 30, 2013**

Audited by

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

**BROKEN ARROW, OK**

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2013

**BOARD OF EDUCATION**

**President**

Mike Weeks

**Vice-President**

Tony Tuck

**Clerk**

Becky Sargent

**Member**

Gaylen Hale

**Member**

Pappy Wortham

**SUPERINTENDENT OF SCHOOLS**

Craig Wall

**ENCUMBRANCE CLERK**

Liz Cowell

**SCHOOL DISTRICT TREASURER**

Amy Keeton-Smith

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
JUNE 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3-4
Independent Auditor's Report	5-6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements - Regulatory Basis - Performed in Accordance with Government Auditing Standards	7-8
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	9-10
Disposition of Prior Year's Reportable Conditions and Material Instances of Non-Compliance	11
Schedule of Audit Results, Findings and Questioned Costs	12
<b>Combined Financial Statements – Regulatory Basis</b>	
Combined Statement of Assets, Liabilities and Fund Equity - All Fund Types and Account Groups – Regulatory Basis	13
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types and Expendable Trusts – Regulatory Basis	14
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	15-17
<b>Notes to Combined Financial Statements - Regulatory Basis</b>	18-34
<b>Combining Financial Statements – Regulatory Basis</b>	
Combining Statement of Assets, Liabilities and Fund Equity – All Special Revenue Funds – Regulatory Basis	35

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
JUNE 30, 2013

Page No.

**Combining Financial Statements – Regulatory Basis – cont'd**

Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Special Revenue Funds – Regulatory Basis	36
Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Special Revenue Fund Types – Regulatory Basis	37
Combining Statement of Assets, Liabilities and Fund Equity – All Fiduciary Fund Types – Regulatory Basis	38
Combining Statement of Changes in Assets and Liabilities – Trust and Agency Funds – Regulatory Basis	39
Schedule of Expenditures of Federal Awards – Regulatory Basis	40
Schedule of Statutory, Fidelity and Honesty Bonds	41
Schedule of Accountant’s Professional Liability Insurance Affidavit	42



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

November 1, 2013

The Honorable Board of Education  
Valliant School District Number I-11  
Valliant, McCurtain County, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Valliant School District Number I-11, Valliant, McCurtain County, Oklahoma (the District), as of and for the year ended June 30, 2013, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As discussed in Note 1, the financial statements are prepared by the District, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determined, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

The financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

### **Qualified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” Paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2013, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 also not a required part of the basic financial statements.

The combining statements – regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined statements – regulatory basis and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and to 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* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accounts, LLP



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

November 1, 2013

The Honorable Board of Education  
Valliant School District Number I-11  
Valliant, McCurtain County, Oklahoma

We have audited 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, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Valliant School District Number I-11, Valliant, McCurtain County, Oklahoma (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated November 1, 2013, 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 for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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 agreement, compliance with which could have a direct and material effect on the determination of financial statements 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accounts, LLP



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

November 1, 2013

The Honorable Board of Education  
Valliant School District Number I-11  
Valliant, McCurtain County, Oklahoma

### **Report on Compliance for Each Major Federal Program**

We have audited Valliant School District Number I-11, Valliant, McCurtain County, Oklahoma (District)'s, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. 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.

### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the District, complied, in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

## **Report on Internal Control Over Compliance**

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accounts, LLP

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2013

There were no prior year reportable conditions.

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013

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

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.
4. The audit disclosed no significant deficiencies in the internal controls over major programs.
5. An unqualified opinion report was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major were the Title I Programs (84.010) and the Child Nutrition Programs (10.553, 10.555, 10.582), 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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2013

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES	ACCOUNT GROUPS	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	EXPENDABLE TRUSTS AND AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>						
Cash	\$ 869,903	36,183	15	177,325		1,083,426
Investments		4,791				4,791
Amounts available in debt service					15	15
Amount to be provided for retirement of long-term debt					627,858	627,858
Total Assets	<u>\$ 869,903</u>	<u>40,974</u>	<u>15</u>	<u>177,325</u>	<u>627,873</u>	<u>1,716,090</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities:						
Warrants payable	\$ 244,361	6,868		2,000		253,229
Encumbrances	6,534					6,534
Funds held for school organizations				175,325		175,325
Long-term debt:						
Capital Leases					627,873	627,873
Total liabilities	<u>250,895</u>	<u>6,868</u>	<u>0</u>	<u>177,325</u>	<u>627,873</u>	<u>1,062,961</u>
Fund Equity:						
Cash fund balances	<u>619,008</u>	<u>34,106</u>	<u>15</u>	<u>0</u>	<u>0</u>	<u>653,129</u>
Total Liabilities and Fund Equity	<u>\$ 869,903</u>	<u>40,974</u>	<u>15</u>	<u>177,325</u>	<u>627,873</u>	<u>1,716,090</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES  
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	EXPENDABLE TRUST FUNDS	
Revenues Collected:					
Local sources	\$ 2,132,778	287,767		2,500	2,423,045
Intermediate sources	115,028				115,028
State sources	3,166,641				3,166,641
Federal sources	913,337	316,550			1,229,887
Interest earnings	11,208	609			11,817
Non-revenue receipts		26,000			26,000
Total revenues collected	<u>6,338,992</u>	<u>630,926</u>	<u>0</u>	<u>2,500</u>	<u>6,972,418</u>
Expenditures:					
Instruction	4,116,230				4,116,230
Support services	2,224,220	301,999			2,526,219
Operation of non-instructional services	403,333	1,987			405,320
Facilities Acquisition & Const. Services	27,631	262,259			289,890
Other uses				4,500	4,500
Repayments	27,013				27,013
Total expenditures	<u>6,798,427</u>	<u>566,245</u>	<u>0</u>	<u>4,500</u>	<u>7,369,172</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(459,435)	64,681	0	(2,000)	(396,754)
Adjustments to prior year encumbrances	<u>270</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>270</u>
Excess of revenues collected over (under) expenditures	(459,165)	64,681	0	(2,000)	(396,484)
Cash fund balances, beginning of year	<u>1,078,173</u>	<u>(30,575)</u>	<u>15</u>	<u>2,000</u>	<u>1,049,613</u>
Cash fund balances, end of year	<u>\$ 619,008</u>	<u>34,106</u>	<u>15</u>	<u>0</u>	<u>653,129</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN 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, 2013

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 2,015,747	2,015,747	2,132,778	117,031
Intermediate sources	103,566	103,566	115,028	11,462
State sources	3,008,671	3,153,163	3,166,641	13,478
Federal sources	827,243	957,690	913,337	(44,353)
Interest earnings			11,208	11,208
Total revenues collected	5,955,227	6,230,166	6,338,992	108,826
Expenditures:				
Instruction			4,116,230	(4,116,230)
Support services			2,224,220	(2,224,220)
Operation of non-instructional services			403,333	(403,333)
Facilities acquisition & construction services			27,631	(27,631)
Repayments			27,013	(27,013)
Unbudgeted	7,033,400	7,308,339		7,308,339
Total expenditures	7,033,400	7,308,339	6,798,427	509,912
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(1,078,173)	(1,078,173)	(459,435)	618,738
Adjustments to prior year encumbrances	0	0	270	270
Excess of revenue collected over (under) expenditures	(1,078,173)	(1,078,173)	(459,165)	619,008
Cash fund balance, beginning of year	1,078,173	1,078,173	1,078,173	0
Cash fund balance, end of year	\$ 0	0	619,008	619,008

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN 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, 2013

SPECIAL REVENUE FUNDS

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 281,284	286,284	287,767	1,483
Federal sources	335,340	335,340	316,550	(18,790)
Interest			609	609
Return of assets		26,000	26,000	
Total revenues collected	<u>616,624</u>	<u>647,624</u>	<u>630,926</u>	<u>(16,698)</u>
Expenditures:				
Support services			301,999	(301,999)
Operation of non-instructional services			1,987	(1,987)
Facilities acquisition & construction services			262,259	(262,259)
Unbudgeted	586,049	617,049		617,049
Total expenditures	<u>586,049</u>	<u>617,049</u>	<u>566,245</u>	<u>50,804</u>
Excess of revenue collected over (under) expenditures	30,575	30,575	64,681	34,106
Cash fund balances, beginning of year	<u>(30,575)</u>	<u>(30,575)</u>	<u>(30,575)</u>	<u>0</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>34,106</u>	<u>34,106</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN 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, 2013

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 0	0	0
Requirements:	0	0	0
Excess of revenue collected over (under) expenditures	0	0	0
Cash fund balance, beginning of year	0	15	15
Cash fund balance, end of year	\$ 0	15	15

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Valliant Public Schools Independent District No. I-11 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**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. The District did not maintain the child nutrition fund during the 2012-13 school year.

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-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**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. The District did not maintain a capital projects fund during the 2012-13 fiscal year.

**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 maintained only the Gifts and Endowments fund during the 2012-13 school 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-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**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.

**Memorandum Only - Total Column**

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**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 generally accepted accounting principles. Significant differences are as follows:

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

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

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve 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.

The 2012-13 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Total</u>
General	\$ 274,939
Building	31,000

These amendments were approved by the county excise board.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

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

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

Inventories – The value of consumable inventories at June 30, 2013, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is presented without depreciation amounts.

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

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

reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

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

F. Revenue and Expenditures

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

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

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

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

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the Districts.

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

F. Revenue and Expenditures – cont'd

for prior year errors disclosed by review. Normally, such adjustments are treated as reductions from or additions to the revenue of the year when the adjustment is made.

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

F. Revenue and Expenditures – cont'd

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**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. During the 2012-13 fiscal year, there were no residual equity transfers made.

**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, 2013, was \$1,092,994. 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, 2013, the District's maintained \$4,791 in certificates of deposit.

*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 an 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. The District does not have a formal policy limiting its exposure arising from concentration of investments.

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

**3. INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund receivables or payables at June 30, 2013.

**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 capital leases. Debt service requirements for leases are paid from the fund which the lease originated.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2013:

	Capital Leases
Balance, July 1, 2012	\$ 792,179
Additions	150,260
Retirements	(314,566)
Balance, June 30, 2013	\$ 627,873

A brief description of the outstanding long-term debt at June 30, 2013, is set forth below:

	<u>Amount Outstanding</u>
Lease purchase for a bus, dated 10-19-09, totaling \$82,743, due in monthly principal and interest installments of \$1,487	\$ 23,293
Lease purchase for a bus, dated 4-16-13, totaling \$68,356, due in monthly principal and interest installments of \$1,521	65,682
Lease purchase for a truck, dated 5-7-13, totaling \$81,903, due in monthly principal and interest installments of \$1,481	80,648

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

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

	<u>Amount Outstanding</u>
Lease purchase for the Valliant School Authority, dated 10-24-05, totaling \$175,000, due in monthly principal and interest installments of \$8,053	<u>458,250</u>
Total	<u>\$ 627,873</u>

The annual debt service requirements for the retirement of the capital leases, including the payment of principal and interest, are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 124,552	25,948	150,500
2015	117,987	20,617	138,604
2016	117,209	15,447	132,656
2018	119,550	10,064	129,614
2018	108,129	4,798	112,927
2019-2023	<u>40,446</u>	<u>516</u>	<u>40,962</u>
Totals	<u>\$ 627,873</u>	<u>77,390</u>	<u>705,263</u>

Interest paid on general long-term debt during the 2012-13 fiscal year totaled \$34,891.

**5. VALLIANT SCHOOL AUTHORITY**

An Agreement of Lease was entered into on the 2<sup>nd</sup> day of August, 1979, between the Valliant School Authority, a public trust authority by and through its Trustees, as lessor, and Independent School District No. 11 of McCurtain County, Oklahoma, a public corporation, as lessee. The terms of the lease include all fixed assets of the Authority, which are referred to in the lease agreement as facilities. Reference is made to the “Transcript of Proceedings” for a complete description of this agreement. However, certain provisions of the lease agreement are described as follows:

- A. The Authority is holding title to said facilities (the “Leased Property”), in trust for the Town of Valliant, Oklahoma, a municipal corporation, but under the terms of the Declaration of Trust of the Authority, the District is the sole recipient of any distributions of money or property made by the Authority and the Authority has agreed to convey to the District, free and discharges of said trust, the title so held to the leased property at the earliest date that the Authority practicably can procure a

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**5. VALLIANT SCHOOL AUTHORITY – (cont'd)**

release of the mortgage thereon which the Authority shall grant as security for the aforesaid indebtedness.

- B. To have and to hold the above described Leased Property unto the District and its successors for and during a term commencing at 12:01 A.M., on July 1, 1979, and ending at 11:59 P.M. on June 30, 2019. The District hereby is granted and vested with the exclusive right, privilege and option to renew this lease agreement, in all of its terms and provisions, including this provision, for successive annual terms, each commencing t 12:01 A.M. on July 1, and ending at 11:59 P.M. on the next ensuing June 30, until title to the Leased Property shall have been conveyed to the District by the Authority as above set forth: Provided, that if the District shall not otherwise indicate the exercise of said right, privilege and option of renewal, but the District shall in any manner have possession thereof, and said act of possession or said claim shall be deemed an affirmative election and action for the District or renew this lease Agreement for the annual term commencing on said date as aforesaid.
- C. During each year of the Lease Agreement, the District shall pay to the Authority, as consideration for the demise of the Leased Property to the District during that year, the following:
1. On or before the date each shall become due, the amounts necessary to punctually pay the maturing principal or and interest on the debt; plus
  2. On or before the date each shall become due, the amounts required to be set aside or accumulated by the Authority in accounts or funds in relation to the debt; plus
  3. Any amounts, fees and expenses which the Authority shall be obligated to pay under the terms of any and all instruments evidencing and security the debt, by reason of any default or delay in payment of the sums due there under, but only if such default or delay shall have resulted from the District's default or breach of covenant under this Lease Agreement; plus
  4. The amounts required to be expended by the Authority for insuring the Leased Property against loss, and for the furnishing of periodic audits and reports required by the instruments evidencing and security the debt, or by Oklahoma Law.

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**6. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

Basis of Accounting

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

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2012-13 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

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

Funding Policy – cont'd

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

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2013. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

Annual Pension Cost

The District's total contribution for 2013, 2012, and 2011 was \$617,757, \$612,767 and \$653,945.

**7. RISK MANAGEMENT**

The School 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 School reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. As a member of OSAG, the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the school's losses for the last five years. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use its loss fund in three years, it is returned to the District with no interest.

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. The District is a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**7. RISK MANAGEMENT** – cont'd

fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

**8. CONTINGENCIES**

Federal Grants

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

Litigation

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

Subsequent Events

Management has evaluated subsequent events through November 1, 2013, which is the date the financial statements were available to be issued, and have determined that no additional information needs to be added to the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 JUNE 30, 2013

	BUILDING FUND	CO-OP FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 25,366	10,817	36,183
Investments	4,791		4,791
Total Assets	\$ 30,157	10,817	40,974
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$ 6,406	462	6,868
Fund Equity:			
Cash fund balances	23,751	10,355	34,106
Total Liabilities and Fund Equity	\$ 30,157	10,817	40,974

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN 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, 2013

	BUILDING FUND	CO-OP FUND	TOTAL
Revenues Collected:			
Local sources	\$ 287,767		287,767
Federal sources		316,550	316,550
Interest	609		609
Return of assets	26,000		26,000
Total revenues collected	<u>314,376</u>	<u>316,550</u>	<u>630,926</u>
Expenditures:			
Support Services	141,144	160,855	301,999
Operation of non-instructional services	1,987		1,987
Facilities acquisition & construction services	262,259		262,259
Total expenditures	<u>405,390</u>	<u>160,855</u>	<u>566,245</u>
Excess of revenues collected over (under) expenditures	(91,014)	155,695	64,681
Cash fund balances, beginning of year	<u>114,765</u>	<u>(145,340)</u>	<u>(30,575)</u>
Cash fund balances, end of year	<u>\$ 23,751</u>	<u>10,355</u>	<u>34,106</u>

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN 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, 2013

	BUILDING FUND			CO-OP FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues Collected:						
Local sources	\$ 281,284	286,284	287,767	\$		
Federal sources				335,340	335,340	316,550
Interest			609			
Return of assets		26,000	26,000			
Total revenues collected	<u>281,284</u>	<u>312,284</u>	<u>314,376</u>	<u>335,340</u>	<u>335,340</u>	<u>316,550</u>
Expenditures:						
Support services			141,144			160,855
Operation of non-instructional services			1,987			
Facilities acquisition & construction services			262,259			
Unbudgeted	396,049	427,049		190,000	190,000	
Total expenditures	<u>396,049</u>	<u>427,049</u>	<u>405,390</u>	<u>190,000</u>	<u>190,000</u>	<u>160,855</u>
Excess of revenues collected over (under) expenditures	(114,765)	(114,765)	(91,014)	145,340	145,340	155,695
Cash fund balances, beginning of year	<u>114,765</u>	<u>114,765</u>	<u>114,765</u>	<u>(145,340)</u>	<u>(145,340)</u>	<u>(145,340)</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>23,751</u>	<u>\$ 0</u>	<u>0</u>	<u>10,355</u>

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FIDUCIARY FUND TYPES - REGULATORY BASIS  
 JUNE 30, 2013

	EXPENDABLE TRUST FUNDS	AGENCY FUNDS	
<u>ASSETS</u>	GIFTS AND ENDOWMENTS FUND	SCHOOL ACTIVITY FUNDS	TOTAL
Cash	\$ 2,000	175,325	177,325
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants outstanding	\$ 2,000		2,000
Funds held for school organizations		175,325	175,325
Total liabilities	2,000	175,325	177,325
Fund Equity:			
Cash fund balances	0	0	0
Total Liabilities and Fund Equity	\$ 2,000	175,325	177,325

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
 AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

<u>ASSETS</u>	<u>BALANCE</u> 7-01-12	<u>ADDITIONS</u>	<u>NET</u> <u>TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6-30-13
Cash	\$ 190,579	492,934	0	508,188	175,325
 <u>LIABILITIES</u>					
Funds held for school organizations:					
Athletics	\$ 30,205	119,860	115	132,188	17,992
Yearbook	12,673	9,858		13,257	9,274
Band	583	420		809	194
Middle School Art	803	1,022		843	982
Elementary	13,099	63,084		58,900	17,283
FFA	51,453	109,314		124,952	35,815
FFA Shop	4,115	2,828		5,332	1,611
FCCLA	1,462	6,588		6,199	1,851
CDC Communication Disc.	921	2,563		1,106	2,378
Quiz Bowl - MS	665	100		185	580
Competitive Choir	296	2,583		2,620	259
Class of 2012	433	0	(433)	0	0
High School	8,945	13,655	(621)	19,841	2,138
Interest	9,989	4,597		9,849	4,737
Class of 2013	4,583	890		4,447	1,026
Middle School	20,141	30,340	621	31,532	19,570
General Music	269	5,589	(40)	5,066	752
National Honor Society	317	1,532		1,102	747
Class of 2014	51	16,904	433	12,054	5,334
HS Student Council	1,034	6,256		6,016	1,274
Library	5,252	3,641		1,836	7,057
Vocational Carpentry	4,855	3,080		3,830	4,105
Academic Club	21	220	(75)	0	166
F.C.A.	179	39		25	193
Science Club	610	135		231	514
Retirement Fund	319	750		565	504
Spanish Club	230	0		24	206
Accelerated Reader	1,447	3,210		3,632	1,025
Special Olympics	5,597	8,657		5,747	8,507
MS FCCLA	714	5,646		4,202	2,158
Art Club	1,001	789		742	1,048
Angel Fund	6,915	3,525		1,313	9,127
Native American Club	0	1,135		300	835
Show Choir	1,091	13,671		10,588	4,174
Middle School Student Council	311	370		428	253
Valliant Alumni	0	50,083		38,427	11,656
Total Liabilities	\$ 190,579	492,934	0	508,188	175,325

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor / Pass Through Grantor / Program Title	CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/12	Revenue Collected	Total Expenditures	Balance at 6/30/13
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060a	S060A120003	\$ 75,835		75,835	75,835	
Impact Aid	84.041z	S041B20074246	2,346		2,346	2,346	
Sub-Total			<u>78,181</u>	<u>0</u>	<u>78,181</u>	<u>78,181</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
*Title I, Basic Program	84.010		318,129		227,947	305,888	77,941
Title I, Basic Program 2011-12 - Note	84.010			46,319	46,319		
*Title I, School Improvement	84.011		132		132	132	
Title II Part A	84.367		42,343		16,210	32,999	16,789
Title II, Part B	84.366		193,399		163,493	165,528	2,035
Title II, Part B, 2011-12 - Note	84.366			153,058	153,058		
<u>Special Education Programs:</u>							
IDEA-B, Flow Through	84.027		196,522		163,268	196,522	33,254
IDEA-B, Preschool	84.173		3,603		2,614	3,279	665
Title VI, Part B	84.358		18,986		10,142	16,247	6,105
Title VI, Part B 2011-12 - Note	84.358			945	945		
Sub-Total			<u>773,114</u>	<u>200,322</u>	<u>784,128</u>	<u>720,595</u>	<u>136,789</u>
<u>Passed Through State Department of Career and Technology Education:</u>							
Carl Perkins 2011-12 - Note	84.048		0	11,803	11,803	0	0
<u>U.S. Department of Agriculture:</u>							
<u>*Child Nutrition Programs:</u>							
School breakfast program	10.553				60,209	27,064	
National school lunch program	10.555				231,136	231,136	
Fresh fruit and vegetables	10.582				21,295	22,077	
Sub Total					<u>312,640</u>	<u>280,277</u>	
<u>Passed Through Department of Human Services:</u>							
<u>*Non-cash assistance- commodities - Note 1</u>							
National school lunch program	10.555				18,393	18,393	
<u>Other Federal Assistance:</u>							
Johnson O'Malley			9,490		9,490	9,490	
Medicaid Resources	93.778		33,645		33,645	33,645	
Sub Total			<u>43,135</u>	<u>0</u>	<u>43,135</u>	<u>43,135</u>	<u>0</u>
Total Federal Assistance			<u>\$ 894,430</u>	<u>212,125</u>	<u>1,248,280</u>	<u>1,140,581</u>	<u>136,789</u>

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

Note 1 - Commodities received by the District in the amount of \$18,393 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

\* - Major programs

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
FOR THE YEAR ENDED JUNE 30, 2013

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Western Surety Company	Treasurer	70832616	\$ 100,000	9/14/12 - 9/14/13
Old Republic Surety Group	Encumbrance Clerk & Minutes Clerk	LPO-2088211	5,000	7/1/12 - 7/1/13
	Activity Fund Custodian	W150065697	5,000	7/1/12 - 7/1/13
	HS Activity Fund Secretary	LOP-2103646	5,000	7/1/12 - 7/1/13
	ES Activity Fund Secretary	LPO-2021595	5,000	7/1/12 - 7/1/13
	ES Activity Fund Secretary	LOP-2021596	5,000	7/1/12 - 7/1/13
	MS Activity Fund Secretary	W150065697	5,000	7/1/12 - 7/1/13
	Child Nutrition Clerk	W150072149	5,000	9/15/12 - 9/15/13
	Cafeteria-Lunch Fund & Federl Programs	W150132480	5,000	7/1/12 - 7/1/13
	Athletic Director	W150132483	5,000	8/1/12 - 8/1/13
	Assistant Lunch Fund	W150101703	5,000	8/1/12 - 8/1/13
	Superintendent	W150118138	100,000	2/8/13 - 2/8/14

INDEPENDENT SCHOOL DISTRICT NO. I-11, McCURTAIN COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2012 TO JUNE 30, 2013

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 Valliant Public Schools for the audit year 2012-13.

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

By \_\_\_\_\_  
Authorized Agent

Subscribed and sworn to before me  
This 1<sup>st</sup> day of November, 2013

\_\_\_\_\_  
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2016  
Commission No. 00008621