FINANCIAL STATEMENTS - REGULATORY BASIS AND REPORTS OF INDEPENDENT AUDITOR

BETHEL SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY, OKLAHOMA

JUNE 30, 2012

Audited by

JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK

INDEPENDENT SCHOOL DISTRICT NO. I-3
POTTAWATOMIE COUNTY, OKLAHOMA
JUNE 30, 2012

TABLE OF CONTENTS

	Page No.
Table of Contents	1-2
School District Officials	3
Independent Auditor's Report	4-5
COMBINED FINANCIAL STATEMENTS:	
Combined Statement of Assets, Liabilities and Fund Equity – Regulatory Basis - All Fund Types and Account Groups	6
Combined Statement of Revenues, Expenditures, and Changes in Cash Fund Balances – Regulatory Basis - All Governmental Fund Types	7
Combined Statement of Revenues, Expenditures and Changes in Cash Fund Balance - Budget and Actual – Regulatory Basis - Budgeted Governmental Fund Types	8-10
Notes to Combined Financial Statements	11-27
OTHER SUPPLEMENTARY INFORMATION:	
COMBINING FINANCIAL STATEMENTS:	
Combining Statement of Assets, Liabilities and Fund Equity – - Regulatory Basis - All Special Revenue Funds	28
Combining Statement of Revenues, Expenditures, and Changes in Cash Fund Balances – Regulatory Basis - All Special Revenue Funds	29
Combining Statement of Revenues, Expenditures and Changes in Cash Fund Balance - Budget and Actual – Regulatory Basis - Budgeted Special Revenue Fund Types	30

INDEPENDENT SCHOOL DISTRICT NO. I-3
POTTAWATOMIE COUNTY, OKLAHOMA
JUNE 30, 2012

TABLE OF CONTENTS

	Page No.
OTHER SUPPLEMENTARY INFORMATION: – contd.	
Combining Statement of Assets, Liabilities and Fund Equity – - Regulatory Basis - All Capital Projects Funds	31
Combining Statement of Revenues, Expenditures, and Changes in Cash Fund Balances – Regulatory Basis - All Capital Projects Funds	32
Combining Statement of Assets and Liabilities – Regulatory Basis - All Fiduciary Fund Types	33
Combining Statement of Changes in Assets and Liabilities - Regulatory Basis - All Agency Funds	34
Schedule of Expenditures of Federal Awards	35-36
Schedule of Surety Bonds	37
Internal Control and Compliance Reports	
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*	38-39
Report on Compliance with Requirements that could have a Direct And Material Effect on each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	40-41
Schedule of Findings and Questioned Costs	42
Disposition of Prior Year's Schedule of Findings	43
Schedule of Accountant's Professional Liability Insurance Affidavit	44
Audit Acknowledgement	45

INDEPENDENT SCHOOL DISTRICT NO. I-3
POTTAWATOMIE COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012

BOARD OF EDUCATION

President	Keith Mitchell
Vice-President	Holli Jackson
Clerk	Bryan Newell
Member	Les Herman
Member	Joe Morlan

SUPERINTENDENT OF SCHOOLS

Jerry Johnson

MINUTES CLERK

Brieen Garoutte

SCHOOL DISTRICT TREASURER

Kellie Gambill

Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Bethel School District No. I-003
Shawnee, Oklahoma 74801-8711

I have audited the accompanying regulatory basis financial statements of Bethel School District No. I-003, Shawnee, Oklahoma, as listed in the table of contents as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed by the Oklahoma State Department of Education that demonstrates compliance with the cash basis and budget laws of Oklahoma, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

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

In my opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to above do not present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of Bethel School District No. I-003, Shawnee, Oklahoma as of June 30, 2012, and the results of its operations for the year then ended.

10026 - A South Mingo Rd. # 309 • Tulsa, OK 74133-5700
Tulsa local phone (918) 366-4440 • Toll Free 1-866-536-5272 • Fax (918) 366-4443
www.jackhjenkinscpa.com

However, in my opinion, except for the omission of the general fixed assets account group, which results in an incomplete presentation as explained 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, where applicable, of Bethel School District No. I-003, Shawnee, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated February 1, 2013, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements that collectively comprise Bethel School District No. I-003's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit* Organizations, and is not a required part of the combined financial statements. The combining fund statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Jack H. Jenkins

Jack H. Jenkins
Certified Public Accountant, P.C.

February 1, 2013

COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY - REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (Memorandum Only)	
ASSETS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST AND AGENCY FUND	GENERAL LONG-TERM DEBT	2012	2011
Cash	$ 1,914,299	133,421	464,020	468,414	180,232		3,160,386	2,803,844
Investments					10,420		10,420	10,420
Amounts available in debt service						26,725	26,725	11,799
Amounts to be provided for retirement of general long-term debt						5,751,916	5,751,916	6,258,936
Total Assets	1,914,299	133,421	464,020	468,414	190,652	5,778,641	8,949,447	9,084,999
LIABILITIES AND FUND EQUITY								
Liabilities								
Warrants payable	814,929	4,821		9,750			829,500	637,857
Encumbrances	22,399	115					22,514	33,395
Funds held for school organizations					190,652		190,652	162,333
Unmatured obligations			437,295				437,295	446,980
Long-term debt:								
Bonds payable						1,315,000	1,315,000	1,285,000
Capital leases						4,463,641	4,463,641	4,985,735
Total liabilities	837,328	4,936	437,295	9,750	190,652	5,778,641	7,258,602	7,551,300
Fund Equity								
Cash fund balances	1,076,971	128,485	26,725	458,664			1,690,845	1,533,699
Total Liabilities and Fund Equity	$ 1,914,299	133,421	464,020	468,414	190,652	5,778,641	8,949,447	9,084,999

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES				TOTALS (Memorandum Only)	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	2012	2011
Revenues						
Local sources	$ 877,816	108,239	457,259		1,443,314	1,440,435
Intermediate sources	157,042				157,042	145,367
State sources	6,171,052	19,177	22		6,190,251	6,035,590
Federal sources	952,927				952,927	1,381,687
Non-revenue receipts	11,713				11,713	8,908
Total revenues	8,170,550	127,416	457,281	-	8,755,247	9,011,987
Expenditures						
Instruction	5,189,881	18,619			5,208,500	5,014,715
Support services	2,409,091	38,340		9,885	2,457,316	2,350,175
Operation of non-instructional services	506,291				506,291	480,533
Facilities, acquisition and const. services	225	25,059		432,350	457,634	466,831
Other outlays	300				300	200
Debt service			442,355		442,355	455,479
Repayments	525				525	698
Total expenditures	8,106,313	82,018	442,355	442,235	9,072,921	8,768,631
Revenues over (under) expenditures	64,237	45,398	14,926	(442,235)	(317,674)	243,356
Other financing sources (uses)						
Lapsed appropriations	22,651	2,200			24,851	28,420
Estopped warrants	82				82	47
Bank charges	(113)				(113)	(158)
Bond proceeds				450,000	450,000	440,000
Total other financing sources (uses)	22,620	2,200		450,000	474,820	468,309
Revenue and other sources over (under) expenditures and other uses	86,857	47,598	14,926	7,765	157,146	711,665
Cash fund balance, beginning of year	990,114	80,887	11,799	450,899	1,533,699	822,034
Cash fund balance, end of year	$ 1,076,971	128,485	26,725	458,664	1,690,845	1,533,699

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - BUDGETED GENERAL FUND
JUNE 30, 2012

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	$ 774,304	774,304	877,816
Intermediate sources	132,852	132,852	157,042
State sources	5,973,849	5,973,849	6,171,052
Federal sources	858,692	858,692	952,927
Non-revenue receipts			11,713
Total revenues	7,739,697	7,739,697	8,170,550
Expenditures			
Instruction	5,653,361	5,653,361	5,189,881
Support services	2,560,565	2,560,565	2,409,091
Operation of non-instructional services	513,077	513,077	506,291
Facilities acquisitions and construction	725	725	225
Other outlays	650	650	300
Repayments	1,433	1,433	525
Total expenditures	8,729,811	8,729,811	8,106,313
Revenues over (under) expenditures	(990,114)	(990,114)	64,237
Other financing sources (uses)			
Lapsed appropriations			22,651
Estopped warrants			82
Bank charges			(113)
Total other financing sources (uses)			22,620
Revenue and other sources over (under) expenditures and other uses	(990,114)	(990,114)	86,857
Cash fund balance, beginning of year	990,114	990,114	990,114
Cash fund balance, end of year	$ -	-	1,076,971

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - ALL BUDGETED SPECIAL REVENUE FUNDS
JUNE 30, 2012

	SPECIAL REVENUE FUNDS		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	$ 87,630	87,630	108,239
State sources		19,172	19,177
Total revenues	87,630	106,802	127,416
Expenditures			
Instruction	1	19,173	18,619
Support services	101,469	101,469	38,340
Facilities acquisitions and construction	67,047	67,047	25,059
Total expenditures	168,517	187,689	82,018
Revenues over (under) expenditures	(80,887)	(80,887)	45,398
Other financing sources (uses)			
Lapsed appropriations			2,200
Revenue and other sources over (under) expenditures and other uses	(80,887)	(80,887)	47,598
Cash fund balance, beginning of year	80,887	80,887	80,887
Cash fund balance, end of year	$ -	-	128,485

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

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - DEBT SERVICE FUNDS
JUNE 30, 2012

	DEBT SERVICE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	$ 432,681	432,681	457,259
State sources			22
Total revenues	432,681	432,681	457,281
Expenditures			
Other outlays			
Debt service	444,480	444,480	442,355
Revenues over (under) expenditures	(11,799)	(11,799)	14,926
Cash fund balance, beginning of year	11,799	11,799	11,799
Cash fund balance, end of year	$ -	-	26,725

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, POTTAWATOMIE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

1. Summary of Significant Accounting Policies

The basic financial statements of the Bethel Public Schools Independent District No. I-3 (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

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. The Parent Teacher Association (PTA) is not included in the reporting entity. The District does not appoint any of the board members or exercise any oversight authority over the PTA.

1. **Summary of Significant Accounting Policies**- contd.

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 Fund - The special revenue funds are the District's building, co-op and child nutrition funds.

Building Fund - The building fund consists of monies derived 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 the 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.

1. **Summary of Significant Accounting Policies**- contd.

B. Fund Accounting - contd.

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. The District did not maintain this fund during the 2011-12 fiscal year.

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 Funds - 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.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds). The District has no proprietary fund types.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under a trust agreement, either a nonexpendable trust fund or an expendable trust fund is used depending on whether there is an obligation to maintain trust principal. Agency

1. **Summary of Significant Accounting Policies**- contd.

B. Fund Accounting - contd.

funds are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

Expendable Trust Funds - Expendable trust funds include the gifts fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintain any expendable trust funds in the 2011-12 fiscal year.

Gifts Fund - The gifts fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

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

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

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 fundraising efforts of the student and District-sponsored groups. The administration is responsible, under the authority of the Board, in collecting, disbursing and accounting for these activity funds.

Account Group

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

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

1. **Summary of Significant Accounting Policies**- contd.

B. *Fund Accounting* - contd.

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, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

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

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

1. **Summary of Significant Accounting Policies**- contd.

C. Basis of Accounting and Presentation – contd.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which requires revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and, when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

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.

The District may upon approval by a majority of the electors of the District voting on the question make the ad valorem levy for emergency levy and local support levy permanent.

Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

E. Assets, Liabilities and Fund Equity

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

Investments - Investments consist of direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, bank 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.

1. **Summary of Significant Accounting Policies**- contd.

E. Assets, Liabilities and Fund Equity – contd.

Inventories - The value of consumable inventories at June 30, 2012 is not material to the combined financial statements-regulatory basis.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset 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.

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

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

1. **Summary of Significant Accounting Policies**- contd.

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 roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owned. 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 interest earnings, 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 were collected within such systems.

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

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

1. **Summary of Significant Accounting Policies**- contd.

F. Revenue and Expenditures- contd.

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 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 pass-through 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.

All of the federal revenues received by the District are apportioned to the general fund.

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 co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence.

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

1. **Summary of Significant Accounting Policies-** contd.

F. Revenue and Expenditures - contd.

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 improvement to sites.

Other Outlays/Uses 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) when applicable. Other uses include scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditure 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 expenditure/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

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

2. Deposits and Investments

Custodial Credit Risk

At June 30, 2012, the District held deposits of approximately $3,170,806 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposits or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipations notes of public trusts whose beneficiary is a county, municipality or school district.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

2. **Deposits and Investments** – cont'd

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Market Value	Cost
Investments			
Money Market		$ 0	0
Municipal tax-supported money judgments		0	0
Certificate of Deposit		10,420	10,420
Total investments		$ 10,420	10,420

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 0% in Money Market funds, 0% in Municipal tax-supported money judgments and 100% in CDs ($10,420).

3. **General Long-term Debt**

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues can be 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 building bonds payable and four (4) capital leases. Debt service requirements for bonds are payable solely from the fund balance and the future revenues of the debt service fund.

The District has entered into lease agreements as lessee for financing the acquisition of HVAC equipment, equipment and personal property, modular classroom building and an energy management system. The lease agreements qualify as capital leases for accounting purposes, since titles transfer at the end of the lease terms. The leases contain a clause, which gives the District the ability to terminate the lease agreement at the end of each fiscal year. The properties and equipment are collateral for the leases.

3. **General Long-term Debt** – contd

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2012:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2011	$ 1,285,000	4,985,735	6,270,735
Additions	450,000		450,000
Retirements	420,000	522,094	942,094
Balance, June 30, 2012	$ 1,315,000	4,463,641	5,778,641

A brief description of the outstanding long-term debt at June 30, 2012 is set forth below:

	Amount outstanding
General Obligation Bonds	
Building Bonds, Series 2010, original issue $425,000 interest rate of 2.0%, one installment of $425,000 due January 1, 2013;	$ 425,000
Building Bonds, Series 2011, original issue $440,000 interest rate of 1.15%, one installment of $440,000 due January 1, 2014;	440,000
Building Bonds, Series 2012, original issue $450,000 interest rate of 0.45%, one installment of $450,000 due June 1, 2014;	450,000
Capital Leases	
Lease agreement for Honeywell energy management system, dated November 19, 2003, totaling $185,592, interest rate of 3.66%, due in monthly installments of $1,849 beginning May 11, 2004, final installment due April 11, 2014;	38,984

3. **General Long-term Debt** – contd

	Amount outstanding
Capital Leases – contd.	
Lease agreement for HVAC equipment, dated January 12, 2004, totaling $175,000, interest rate of 3.89%, annual principal and interest payments of $21,455 beginning January 28, 2005, final payment due January 29, 2014;	$ 40,532
Lease agreement for modular classroom building, dated May 8, 2006, totaling $338,674, interest rate of 4.97%, annual principal and interest payments of $58,020 beginning March 11, 2007, final payment due March 11, 2013;	55,275
Lease agreement for equipment and personal property, totaling $5,585,250, payable in annual installments beginning Sept. 1, 2009, final payment of $1,029,300 due Sept. 1, 2019;	4,328,850
Total	$ 5,778,641

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

Year Ending June 30	Principal	Interest	Total
2013	$ 425,000	15,585	440,585
2014	890,000	7,085	897,085
Totals	$ 1,315,000	22,670	1,337,670

There was $32,040 interest paid on general long-term debt incurred during the current year.

3. **General Long-term Debt** – contd

The annual debt service requirements for the retirement of lease payments are as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 536,271	5,649	541,920
2014	488,920	1,178	490,098
2015	460,050	-	460,050
2016	469,950	-	469,950
2017	479,850	-	479,850
Thereafter	2,028,600	-	2,028,600
Totals	$ 4,463,641	6,827	4,470,468

4. **Employee Retirement System**

Plan Description

The District participates in the state-administered Oklahoma Teachers' Retirement Plan, 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 Teachers' Retirement System of Oklahoma, P.O. Box 53524, 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

4. **Employee Retirement System** – contd.

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. Beginning, July 1, 2010, the District and State were required to contribute 14.5% of applicable compensation. Contributions received by the System are from a percentage of its revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. The District contributed 9.5% beginning January 1, 2010 and the State of Oklahoma contributed the remaining 5.0% during the year. The District is allowed by the Oklahoma Teacher's Retirement System to make the required 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.

Annual Pension Cost

The District's portion of the total contributions for 2012, 2011 and 2010 were $489,059, $419,963 and $437,596 respectively.

5. **Contingencies**

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

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; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

7. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, 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.

OTHER SUPPLEMENTARY INFORMATION – REGULATORY BASIS - COMBINING FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

ASSETS	BUILDING FUND	CO-OP FUND	TOTALS (Memorandum Only) 2012	2011
Cash	$ 130,734	2,687	133,421	85,656
LIABILITIES AND FUND EQUITY				
Liabilities				
Warrants payable	2,140	2,681	4,821	2,525
Encumbrances	115		115	2,244
Total liabilities	2,255	2,681	4,936	4,769
Fund Equity				
Cash fund balances	128,479	6	128,485	80,887
Total Liabilities and Fund Equity	$ 130,734	2,687	133,421	85,656

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

	BUILDING FUND	CO-OP FUND	TOTALS (Memorandum Only) 2012	2011
Revenues				
Local sources	$ 108,239		108,239	118,065
State sources	5	19,172	19,177	20,125
Total revenues	108,244	19,172	127,416	138,190
Expenditures				
Insruction		18,619	18,619	15,079
Support services	37,792	548	38,340	51,319
Facilities, acquisition and const. services	25,059		25,059	48,531
Total expenditures	62,851	19,167	82,018	114,929
Revenues over (under) expenditures	45,393	5	45,398	23,261
Other financing sources (uses)				
Lapsed appropriations	2,200		2,200	400
Revenue and other sources over (under) expenditures and other uses	47,593	5	47,598	23,661
Cash fund balance, beginning of year	80,886	1	80,887	57,226
Cash fund balance, end of year	$ 128,479	6	128,485	80,887

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
- REGULATORY BASIS - ALL BUDGETED SPECIAL REVENUE FUNDS
JUNE 30, 2012

	BUILDING FUND			CO-OP FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues						
Local sources	$ 87,630	87,630	108,239			
State sources			5		19,172	19,172
Total revenues	87,630	87,630	108,244	-	19,172	19,172
Expenditures						
Instruction				1	19,173	18,619
Support services	101,469	101,469	37,792			548
Facilities acquisitions and construction	67,047	67,047	25,059			
Total expenditures	168,516	168,516	62,851	1	19,173	19,167
Revenues over (under) expenditures	(80,886)	(80,886)	45,393	(1)	(1)	5
Other financing sources (uses)						
Lapsed appropriations			2,200			
Revenue and other sources over (under) expenditures and other uses	(80,886)	(80,886)	47,593	(1)	(1)	5
Cash fund balance, beginning of year	80,886	80,886	80,886	1	1	1
Cash fund balance, end of year	$ -	-	128,479	-	-	6

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL CAPITAL PROJECTS FUNDS
JUNE 30, 2012

	2012 BUILDING BOND FUND	2011 BUILDING BOND FUND	TOTALS (Memorandum Only) 2012	2011
ASSETS				
Cash	$ 449,865	18,549	468,414	450,899
LIABILITIES AND FUND EQUITY				
Liabilities				
Warrants payable	9,750		9,750	-
Fund equity				
Cash fund balances	440,115	18,549	458,664	450,899
Total Liabilities and Fund Equity	$ 449,865	18,549	468,414	450,899

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN CASH FUND BALANCES - REGULATORY BASIS - ALL CAPITAL PROJECTS FUNDS
JUNE 30, 2012

	2012 BUILDING BOND FUND	2011 BUILDING BOND FUND	2010 BUILDING BOND FUND	2009 BUILDING BOND FUND	TOTALS (Memorandum Only) 2012	2011
Revenues						
Local sources	$ -	-	-		-	1,320
Expenditures						
Support Services	9,885				9,885	17,057
Facilities, acquisition & const. services		432,350			432,350	417,500
Total expenditures	9,885	432,350	-	-	442,235	434,557
Revenues over (under) expenditures	(9,885)	(432,350)	-	-	(442,235)	(433,237)
Other financing sources (uses)						
Inter-fund Transfer		20,681	(7,500)	(13,181)	-	
Bond sales proceeds	450,000				450,000	440,000
Total other financing sources (uses)	450,000	20,681	(7,500)	(13,181)	450,000	440,000
Revenue and other sources over (under) expenditures and other uses	440,115	(411,669)	(7,500)	(13,181)	7,765	6,763
Cash fund balance, beginning of year	-	430,218	7,500	13,181	450,899	444,136
Cash fund balance, end of year	$ 440,115	18,549	-	-	458,664	450,899

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL FIDUCIARY FUND TYPES
JUNE 30, 2012

	AGENCY FUNDS	
	ACTIVITY FUNDS	
	2012	2011
ASSETS		
Cash	$ 180,232	151,913
Investments	10,420	10,420
Total Assets	190,652	162,333
LIABILITIES AND FUND EQUITY		
Liabilities		
Funds held for school organizations	$ 190,652	162,333

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Activities	Balance July 1, 2011	Additions	Net Transfers	Deletions	Balance June 30, 2012
Agriculture	$ 6,935	61,100	4,931	62,864	10,102
Girls Basketball	1,303	13,841	84	14,227	1,001
Library	-	3,161	33	1,993	1,201
Vocal	1,870	10,469	41	9,354	3,026
Athletics	20,794	108,531	9,417	112,538	26,204
Miscellaneous	610	4,659	1,216	4,946	1,539
Elementary	9,101	51,420	2,613	56,665	6,469
HS Student Council	12	7,386	675	7,936	137
Yearbook/Newspaper	23,867	17,203	-	17,690	23,380
MS Student Senate	10,797	29,607	(320)	23,460	16,624
HS Cheerleaders	763	20,833	329	17,951	3,974
Colorguard/Flag Corp	97	1,025	-	1,096	26
Band	4,057	20,142	3,145	24,311	3,033
Art	4,196	4,134	315	4,867	3,778
National Honor Society	104	480	85	623	46
Prowl/SADD	333	585	-	639	279
SST	860	-	-	-	860
MS Student Council	-	913	543	464	992
Elementary Library	6,398	8,629	-	8,765	6,262
Wrestling	52	4,946	(30)	4,968	-
Academic Team	230	-	-	-	230
James Yeisley Scholarship	501	500	-	500	501
Football	3,827	16,026	-	13,270	6,583
Paul T. Carpenter Band Scholarship	11,896	-	36	-	11,932
Senior Class of 2014	15	7,565	-	6,808	772
Parent Teacher Organization	11,876	3,846	40	1,284	14,478
General Fund Refund	-	13,241	(1,553)	11,688	-
Senior Class of 2013	615	30,284	203	21,299	9,803
HS Account	2,080	12,919	643	11,331	4,311
Senior 2012	8,043	2,896	3,074	11,810	2,203
Softball	263	-		-	263
Baseball	9,186	43,634	(4,930)	44,175	3,715
Boys Basketball	2,974	10,537	108	9,259	4,360
Lower Elementary	18,678	55,034	(85)	51,059	22,568
TOTAL ASSETS - AGENCY FUNDS	162,333	565,546	20,613	557,840	190,652
LIABILITIES AND FUND EQUITY					
Funds held for school organizations	$ 162,333	565,546	20,613	557,840	190,652

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012
U.S. Department of Education							
Direct Programs:							
Title VIII Impact Aid - 2010	84.041	S041B103825	$ 372		372	372	
Title VII-Part A, Indian Education	84.060	S060A110929	38,605		37,453	37,453	
Subtotal			38,977	-	37,825	37,825	-
Passed Through State Department of Education:							
* Title I-Part A, Improving Basic Programs	84.010		221,302		192,121	194,755	(2,634)
Title I-Part A, Improving Basic Programs 2010-11 - Note 1	84.010			(13,576)	13,576		
* Title I-Part A, Carryover	84.010		15,766		15,689	15,689	
* Title I-Part A, School Improvement	84.010		116,441		59,028	86,011	(26,983)
Title I-Part A, School Improvement 2010-11 - Note 1	84.010			(13,870)	13,870		
Title II-Part A, Transferability 2010-11 - Note 1	84.367			(4,809)	4,809		
Title II-Part A, Teacher & Principal Training	84.367		33,410		32,937	32,937	
Title II-Part D, Enhancing Education Thru Tech.	84.318		508		508	508	
Title II-Part D, Enh. Ed. Thru Tech. 2010-11 - Note 1	84.318			(538)	538		
Special Education, Flowthrough, P.L. 105-17	84.027		260,281		240,069	242,803	(2,734)
Special Education, Flowthrough 2010-11 - Note 1	84.027			(1,189)	1,189		
Special Education, Preschool, Ages 3-5, P.L. 105-17	84.173		4,777		4,777	4,777	
ARRA Special Education, Preschool, Ages 3-5	84.392			(668)	668		
Title VI-Small, Rural School Ach. Program	84.358		37,879		37,841	37,841	
Subtotal			$ 690,364	(34,650)	617,620	615,321	(32,351)
U.S. Department of Agriculture:							
Passed Through State Department of Education:							
* Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
National School Lunch Program	10.555				28,874	28,874	
Non-Cash Assistance Subtotal					28,874	28,874	

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012
Cash Assistance:							
National School Lunch Program	10.555				227,762	227,762	
School Breakfast Program	10.553				62,576	62,756	
Cash Assistance Subtotal				-	290,338	290,518	-
Total For Program (Cluster)				-	319,212	319,392	-
Other Federal Assistance:							
Rehabilitation Services	84.126		$ 7,145		7,145	7,145	
Subtotal			7,145	-	7,145	7,145	-
Total Federal Assistance			$ 736,486	(34,650)	981,802	979,683	(32,351)

* Major federal programs

Note 1 - These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

Note 2 - Commodities received by the District in the amount of $28,874 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 3 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

I-3, POTTAWATOMIE COUNTY
SCHEDULE OF SURETY BONDS
FOR THE YEAR ENDED JUNE 30, 2012

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Western Surety Company	Superintendent	71135565	$100,000	7/1/11-7/1/12
	Treasurer/Payroll Clerk	70108147	$100,000	7/1/11-7/1/12
	Encumbrance Clerk	70370039	$50,000	8/29/11-8/29/12
	Activity Fund Custodian	70842760	$50,000	12/14/11-12/14/12
	Minutes Clerk	70842756	$1,000	12/14/11-12/14/12

Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S 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*

The Honorable Board of Education
Bethel School District No. I-003
Shawnee, Oklahoma 74801-8711

I have audited the regulatory basis financial statements of Bethel School District No. I-003, Shawnee, Oklahoma, as of and for the year ended June 30, 2012, and have issued my report thereon, dated February 1, 2013. The audit opinion was adverse to generally accepted accounting principles because the District prepares its financial statements on a basis of accounting prescribed by the Oklahoma State Department of Education that complies with the cash and budget laws of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles and qualified as to the preparation of financial statements prepared on that basis. I conducted my audit in accordance with generally accepted auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

10026 - A South Mingo Rd. # 309 • Tulsa, OK 74133-5700
Tulsa local phone (918) 366-4440 • Toll Free 1-866-536-5272 • Fax (918) 366-4443
www.jackhjenkinscpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 of the school board, management, Oklahoma State Auditor and Inspector's Office and the Oklahoma State Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Jack H. Jenkins
Certified Public Accountant, P.C.

February 1, 2013

Jack H. Jenkins, CPA *A Professional Corporation*

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

The Honorable Board of Education
Bethel School District No. I-003
Shawnee, Oklahoma 74801-8711

Compliance

I have audited the compliance of Bethel School District No. I-003, Shawnee, 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, 2012. 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. My responsibility is to express an opinion on the District's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the District's compliance with those requirements.

In my opinion, Bethel School District No. I-003, Shawnee, Oklahoma 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, 2012. The results of my 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 Bethel School District No. I-003, Shawnee, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with requirements of laws,

10026 - A South Mingo Rd. # 309 • Tulsa, OK 74133-5700
Tulsa local phone (918) 366-4440 • Toll Free 1-866-536-5272 • Fax (918) 366-4443
www.jackhjenkinscpa.com

regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program 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 more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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

Jack H. Jenkins
Certified Public Accountant, P.C.

February 1, 2013

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2011 TO JUNE 30, 2012

Summary of Auditor's Results

1. The auditor's report expresses an adverse opinion on the combined financial statements in conformity with generally accepted accounting principles and a qualified opinion for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.

3. No instances of noncompliance material to the financial statements of the District were reported during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133"

5. An unqualified opinion report was issued on the compliance of major federal award programs.

6. The audit disclosed no audit findings and questioned costs, which are required to be reported under OMB Circular A-133 § 510(a).

7. The programs tested as major federal programs were: Title I programs and Child Nutrition programs, which were each clustered in the determination.

8. The dollar threshold used to determine between Type A and Type B programs was $300,000.

9. The District did not qualify to be a low-risk auditee.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
DISPOSITION OF PRIOR YEAR'S SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012

None.

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma)
County of Tulsa)

The undersigned auditing firm representative of lawful age, being first duly sworn on oath, says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Bethel School District for the audit year 2011-12.

Jack H. Jenkins, CPA, P.C.
AUDITING FIRM

BY _____
AUTHORIZED AGENT

Subscribed and sworn to before me on this
1st day of, February, 2013

_____
NOTARY PUBLIC

MICHAEL KEMPER
NOTARY
09009187
EXP. 11/05/13
PUBLIC
STATE OF OKLAHOMA

INDEPENDENT SCHOOL DISTRICT NO. I-3, POTTAWATOMIE COUNTY
AUDIT ACKNOWLEDGEMENT
JULY 1, 2011 TO JUNE 30, 2012

The annual independent audit for Bethel School District was presented to the Board of Education in an Open Board Meeting as indicated below, by Jack H. Jenkins, CPA, P.C.

The School Board acknowledges that as the governing body of the district, responsible for the districts financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgement form, will be sent to the Oklahoma State Department of Education within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

> "The local board of education shall forward a copy of the audit report to the State Board of Education within thirty (30) days after receipt of said audit."

Superintendent of Schools

2-11-13
Date of Board Meeting

Board of Education President

Board of Education Clerk

Board of Education Vice President

Board of Education Member

Board of Education Member

Subscribed and sworn to before me on this 11 day of Feb, 2013
My commission expires on 20 day of Nov., 2013.

Notary Public

Affix Notary Seal

KARLA JENKINS
NOTARY
09009637
EXP. 11/20/13
PUBLIC
STATE OF OKLAHOMA