

Bethel School District No. I-3 Financial Audit Briefing Document (2011-2022)

Integrity of the Game vs Economic Impact (Politics); The Oklahoma Business Plan

This briefing document summarizes the main themes and important information found in the annual state audit reports for Bethel School District No. I-3 from 2011 to 2022. The audits were conducted by independent Certified Public Accountants (initially Jack H. Jenkins, CPA, and later Jenkins & Kemper, CPAs, P.C.).

Overall Audit Scope and Basis:

The audits were conducted to provide an opinion on the financial statements of the District. The scope included examining the regulatory basis financial statements, internal control over financial reporting, and compliance with applicable laws and regulations.

Regulatory Basis of Accounting: The financial statements were consistently prepared on a regulatory basis of accounting prescribed by the Oklahoma State Department of Education, which differs from Generally Accepted Accounting Principles (GAAP). This is a significant recurring theme, with auditors consistently issuing adverse opinions regarding conformity with GAAP due to this basis of presentation.

As stated in the 2016 audit report: "This report 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." Similar statements appear in other audit reports.

Omission of General Fixed Asset Account Group: The auditors consistently qualified their opinions due to the omission of the General Fixed Asset Account Group from the financial statements. The District stated they did not have the necessary information to include this. From the 2016 report: "...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." This qualification is present in multiple reports.

Key Accounting Policies and Practices (Consistent Across Years):

Fund Accounting: The District uses fund accounting to report on its financial position and operations, segregating transactions related to specific functions or activities for legal compliance and financial management. Governmental, proprietary (none), and fiduciary fund types are used. The 2016 report notes: "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."

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Memorandum Only - Total Column: The combined financial statements include a "memorandum only" total column that is not presented in conformity with GAAP and is intended solely for financial analysis. Inter-fund eliminations are not made in this column.

The 2016 report explains: "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."

Basis of Accounting (Regulatory): Revenues are generally recognized when cash is received, and expenditures are recorded when warrants are issued. Encumbrances are recognized at year-end. Long-term debt is recorded when incurred.

The 2016 report details: "- Encumbrances represent commitments related to purchase orders, contracts... An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. - Long-term debt is recorded when incurred."

Assets, Liabilities, and Fund Equity: Inventories are not considered material and are not reported.

Fixed assets are not presented in a General Fixed Asset Account Group.

Warrants payable are recognized as liabilities when issued.

Encumbrances represent commitments for expenditures.

Unmatured obligations represent total annual accruals for principal and interest on debt, less payments.

Cash fund balance represents funds not encumbered, under legal contract, or represented by outstanding warrants and unmaturing obligations.

Revenue Sources: Local revenues primarily consist of property taxes. State revenues are based on state aid formulas. Federal revenues include grants and entitlements.

The 2016 report clarifies: "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..."

Expenditures: Expenditures are categorized by function, such as instruction, support services, and debt service.

Deposits and Investments: The District's cash deposits are fully covered by FDIC or direct obligations of the U.S. government. The District does not have a formal investment policy regarding maturity limits or credit risk beyond state law. Investments primarily consist of certificates of deposit.

The 2016 report states: "At June 30, 2016, the District held deposits of approximately \$2,813,506 at financial institutions. The District's cash deposits... are entirely covered by Federal Depository Insurance (FDIC)..."

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Regarding investments: "The investments held at June 30, 2016 are as follows: Money Market \$0, Municipal tax-supported money judgments \$0, Certificate of Deposit \$10,420." This investment structure remains consistent across the years where detail is provided.

General Long-Term Debt: The District's debt primarily consists of voter-approved building bonds and capital leases for equipment. State statutes limit the amount of indebtedness. Bond debt service is paid from the debt service fund.

The 2016 report notes: "General long-term debt of the District consists of building bonds payable and two (2) capital leases. Debt service requirements for bonds are payable solely from the fund balance and the future revenues of the debt service fund."

Trends and Observations:

Consistent Audit Firm and Reporting Style: Jenkins (and later Jenkins & Kemper) consistently performed the audits and maintained a similar reporting style and structure across the years.

Consistent Basis of Accounting: The adherence to the regulatory basis of accounting and the resulting adverse opinions regarding GAAP conformity remained constant throughout the reviewed period.

Consistent Omission: The General Fixed Asset Account Group was consistently omitted from the financial statements.

Deposits and Investments: The District consistently maintained its deposits in FDIC-insured or government-backed institutions. Investments remained primarily in certificates of deposit.

Long-Term Debt Activity: The reports detail the additions and retirements of bond debt and capital leases each year, reflecting ongoing capital projects and financing activities. The types of capital leases included HVAC equipment, general equipment, personal property, and LED lighting (starting around 2019).

Employee Retirement System: The District consistently made contributions to the state-administered Oklahoma Teachers' Retirement System. The annual pension costs are disclosed in the notes.

Contingencies and Risk Management: Standard disclosures regarding potential adjustments from grantor agencies and the District's management of various risks (torts, theft, damage, etc.) through insurance coverage were included in the notes.

Internal Control and Compliance: While the auditors did not identify any material weaknesses in internal control over financial reporting in the later years (e.g., 2016, 2017), the scope of their review was limited. There were no reported findings related to major federal award programs in the later years.

Surety Bonds: The 2011 audit report noted a finding regarding the District Treasurer not being adequately bonded, which was reported as corrected in the current fiscal year. This type of

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specific finding is less prevalent in later reports, suggesting improvements or a shift in reported items.

Financial Data Highlights (Note: These are illustrative and should be verified with the full reports):

Revenues: Generally showed an increasing trend over the period, with fluctuations from local, state, and federal sources.

Expenditures: Followed a similar trend to revenues, with the largest portion typically allocated to instruction and support services.

Long-Term Debt: Balances fluctuated based on new issuances and principal repayments of bonds and capital leases. The reports provide detailed schedules of these transactions and outstanding balances. For example, the long-term debt balance increased significantly in some years due to new bond issuances for capital projects.

This briefing document provides a high-level overview of the financial audits of Bethel School District No. I-3. For detailed financial figures and specific information, please refer to the individual audit reports.