

**Financial Statements and Reports of  
Independent Certified Public Accountant  
Fairland School District No. I-31  
Ottawa County, Oklahoma  
June 30, 2012**

**TURNER & ASSOCIATES, PLC  
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**Fairland School District No. I-31  
Ottawa County, Oklahoma  
School District Officials  
June 30, 2012**

**Board of Education**

President	Raymond Davis
Vice-President	Vacant
Clerk	Kathy Henry
Member	Chuck Stotts
Member	Angela Goodman

**Superintendent of Schools**

Mark Alexander

**School District Treasurer**

Shelly Dorey

**Minute Clerk**

Candi Anderson

**Encumbrance Clerk**

Candi Anderson

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
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## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education  
Fairland School District No. I-31  
Fairland, Ottawa County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fairland School District No. I-31, Ottawa County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fairland School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Fairland School District No. I-31, Ottawa County, Oklahoma as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report November 20, 2012, on our consideration of the Fairland School 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information of pages 7 through 14 and 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

As discussed in Note IV to the financial statements, the 2011-2012 financial statements have been restated to correct misstatements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairland School District's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Oklahoma State Department of Education, and is also not a required part of the basic financial statements of Fairland School District. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

*TURNER & Associates, PLLC*

Vinita, Oklahoma  
November 20, 2012



**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***

The Honorable Board of Education  
Fairland School District No. I-31  
Fairland, Ottawa County, Oklahoma

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Fairland School District No. I-31, Ottawa County, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Fairland School District's basic financial statements and have issued our report thereon dated November 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

Our 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. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and responses that we consider to be material weaknesses in 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 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. We consider the deficiencies, 2012-1 and 2012-2, described in the accompanying schedule of findings and responses to be material weaknesses.

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.

## **Compliance and Other Matters**

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

The Fairland School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Fairland School District's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Fairland School District, in a separate letter dated November 20, 2012.

This report is intended solely for the information and use of management, the Board of Education, Oklahoma State Auditor and Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*TURNER & Associates, PLLC*

Vinita, Oklahoma  
November 20, 2012



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

The Honorable Board of Education  
Fairland School District No. I-31  
Fairland, Ottawa County, Oklahoma

**Compliance**

We have audited Fairland School District No. I-31, Ottawa County, Oklahoma'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 Fairland School District No. I-31, Ottawa County, Oklahoma's major federal programs for the year ended June 30, 2012. Fairland School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Fairland School District No. I-31, Ottawa County, Oklahoma's compliance based on our audit.

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

In our opinion, Fairland School District No. I-31, Ottawa County, Oklahoma, complied, in all material respects, with the 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, 2012.

**Internal Control Over Compliance**

Management of Fairland School District No. I-31, Ottawa County, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Fairland School District No. I-31, Ottawa County, Oklahoma's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Fairland School District No. I-31, Ottawa County, Oklahoma'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.

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

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairland School District No. I-31, Ottawa County, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Board of Education, management, Oklahoma State Auditor and Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & Associates, PLLC

Vinita, Oklahoma  
November 20, 2012

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

Our discussion and analysis of Fairland School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the District's financial statements which begin on page 15.

**FINANCIAL HIGHLIGHTS**

- The District's net assets decreased by \$21,336 as a result of this year's operations, compared to an increase of \$387,929 in the previous year.
- Governmental Fund revenues were down by \$196,298 in the current year to \$4,177,676, mostly due budget cuts.
- The District purchased a 2009 Bluebird Bus, a new 40 quart floor mixer and installed chain link fencing.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements.

The district-wide reports are designed to show the District as a sum of its significant fund activities. The Statement of Net Assets and Statement of Activities (pages 15-16) provide information about the governmental-type activities of the whole District, presenting both an aggregate view of the School District finances and a longer-term view of those finances.

Fund financial statements (pages 17-19) provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of Fairland School District, the general fund is the most significant fund.

The remaining Fiduciary Fund Statements (pages 20-21) provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of others (student groups) to whom the resources in question belong.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

**Reporting the District as a Whole**

*Statement of Net Assets and Statement of Activities*

Our analysis of the District as a whole begins on page 10. The view of the District as a whole looks at all financial transactions and asks the questions, "Is the District better off or worse off as a result of this year's activities?" and "Why?" or "Why not?" The Statement of Net Assets and the Statement of Activities provide information about the District as a whole and about its activities in a way that helps answer these questions. The statements include *assets* and *liabilities* using the accrual basis of accounting similar to the accounting used in the Fund Financial Statements.

These two statements report the District's *net assets* and any changes in those net assets. The change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. The causes of the change in net assets may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Oklahoma, facility conditions, required educational programs and other factors.

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the performance of its students.

In the Statement of Net Assets and the Statement of Activities, the District is comprised entirely of governmental activities. All of the school's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food service operations and extracurricular activities.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

Our analysis of the District's major funds begins on page 12. The fund financial statements begin on page 17 and provide detailed information about the District's most significant funds.

All of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using a modified accrual basis of accounting. This basis of accounting measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities and governmental *funds* is reconciled in the financial statements of the *Governmental Funds*.

**The District as Trustee**

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20-21. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

**THE DISTRICT AS A WHOLE**

The District's Net Assets are reported in the Statement of Net Assets on page 15.

The District's total net assets were \$6,061,083 as of June 30, 2012. Table 1 provides a comparative summary schedule of net assets.

Table 1  
Summary of Net Assets

	June 30, 2012	June 30, 2011	Differences	
Current Assets	\$ 1,635,830	\$ 1,400,479	\$ 235,351	14.4%
Capital Assets, non-depreciable	98,151	98,151	-	0.0%
Capital Assets, net of depreciation	5,056,172	5,120,592	(64,420)	-1.3%
Total Assets	6,790,153	6,619,221	170,932	2.5%
Current Liabilities	191,334	181,087	10,246	5.4%
Noncurrent Liabilities	537,736	355,715	182,022	33.8%
Total Liabilities	729,070	536,802	192,268	26.4%
Net Assets, Invested in Capital Assets, net of Related Debt	4,433,372	4,688,015	(254,643)	-5.7%
Net Assets, Restricted for Debt Service	35,632	62,202	(26,570)	-74.6%
Net Assets, Unrestricted	1,592,079	1,332,203	259,876	16.3%
Total Net Assets	\$ 6,061,083	\$ 6,082,420	\$ (21,337)	-0.4%

Most of the District's net assets are invested in capital assets (buildings, land and equipment). The remaining net assets are a combination of restricted and unrestricted amounts. The restricted balances are amounts set aside by management for specific purposes as planned by the District or required by law.

Net assets of the District decreased by \$21,337 or by less than 1%. This decrease is comprised of a decrease of \$254,643 in amounts invested in capital assets and construction in progress, net of related debt; a decrease of \$26,570 in restricted for debt service net assets; and an increase of \$259,876 in unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements.

UNAUDITED

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Management's Discussion and Analysis**  
**June 30, 2012**

The results of this year's operations as a whole are reported in the Statement of Activities on page 16. All expenses are reported in the first column. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the Districts activities that are supported by other general revenues. The two largest general revenues are the Foundation and Salary Incentive Aid provided by the State of Oklahoma and the local taxes assessed to community taxpayers.

Table 2 takes the information from that Statement and rearranges it slightly.

Table 2  
Summary of Change in Net Assets

	June 30, 2012	June 30, 2011	Differences	
Charges for Services	\$ 39,267	\$ 36,249	\$ 3,019	7.7%
Operating Grants and Contributions	580,373	849,415	(269,043)	-46.4%
Taxes	1,034,374	992,803	41,571	4.0%
State Aid - Formula Grants	2,480,167	2,431,535	48,631	2.0%
Investment Earnings	4,179	17,411	(13,231)	-316.6%
Rent/Sale of Property	8,303	3,118	5,185	62.4%
Reimbursements	30,725	42,991	(12,265)	-39.9%
Miscellaneous	287	452	(164)	-57.2%
Total Revenues	<u>4,177,676</u>	<u>4,373,973</u>	<u>(196,298)</u>	<u>-4.7%</u>
Instruction	2,440,032	2,382,521	57,511	2.4%
Support Services	1,297,804	1,194,929	102,875	7.9%
Non-Instruction Services	247,245	221,200	26,045	10.5%
Capital Outlay	47,437	20,324	27,114	57.2%
Other Outlays	519	104	415	79.9%
Interest on Long-Term Debt	20,955	29,370	(8,416)	-40.2%
Unallocated Depreciation Expense	145,020	137,596	7,424	5.1%
Total Expenses	<u>4,199,012</u>	<u>3,986,045</u>	<u>212,967</u>	<u>5.1%</u>
Total Increase in Net Assets	<u>\$ (21,336)</u>	<u>\$ 387,929</u>	<u>\$ (409,265)</u>	<u>1918.2%</u>

Taxes made up more than 25% of total revenues for Fairland School District in fiscal year 2012 while State Aid provided 59% of revenues. Federal and State grants decreased \$269,043, and total revenues decreased \$196,298.

Instruction costs saw an increase of \$57,511 more than 2% over the previous year.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

**THE DISTRICT'S FUNDS**

The District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,542,673 and expenditures of \$4,311,123. The overall net increase in fund balances of \$231,553 is comprised of an increase in the general fund balance of \$27,481, an increase in the capital project fund balance of \$297,463, a decrease in the child nutrition fund balance of \$20,196, and a decrease in other governmental funds balance of \$73,196.

**General Fund Budgetary Highlights**

The District's budget is prepared according to Oklahoma law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the fiscal year, the Board of Education (The Board) authorizes revisions to the original budget if necessary to accommodate differences from the original budget to the actual expenditures of the District. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided on pages 39-40.

In the General Fund, actual revenues were \$225,680 more than budgeted and actual expenditures were \$884,366 less than budgeted, resulting in a carryover of \$1,110,046.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012, the District had \$7,166,018 invested in a broad range of capital assets, including land, building, busses, furniture, equipment, and construction in progress. This amount represents a net increase of \$51,613 or less than 1 % from last year.

A 2009 Bluebird bus and a new 40 quart floor mixer were purchased, and new chain link fencing was installed.

### **Debt Administration**

At June 30, 2012, the District had \$720,735 in bonds and capital leases outstanding, with \$183,143 due within one year. Table 3 gives a comparative summary of debt outstanding.

Table 3  
Outstanding Bond and Capital Lease Obligations

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
2007 Building Bonds	\$ -	\$ 40,000
2009 Building Bonds	125,000	185,000
2012 Building Bonds	365,000	-
Capital Lease Obligation - WSB - Crafton	21,975	28,212
Capital Lease Obligation - Welch State Bank	47,711	50,849
Capital Lease Obligation - Vo-Ag Building	36,488	59,402
Capital Lease Obligation - Show Barn	75,277	98,026
Capital Lease Obligation - Roof	25,351	39,601
Capital Lease Obligation - Vo-Ag Truck	24,150	29,658
Total Outstanding Capital Lease Obligations	<u>\$ 720,951</u>	<u>\$ 530,747</u>

The State limits the amount of general obligation debt that school districts can issue to 10% of the assessed value of all taxable property within the District's corporate limits. At June 30, 2012, the District's total bonding capacity was \$1,502,049 less \$490,000 in bonds outstanding for a net bonding capacity of \$1,012,049.



**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Management's Discussion and Analysis  
June 30, 2012**

**THE FUTURE OF THE DISTRICT**

The Board of Education and management considered many factors when setting the fiscal year June 30, 2013 budget, including economic trends and issues, trends in residential growth, student enrollment trends, State of Oklahoma funding issues, and known information about Federal grants.

Our Estimate of Needs for General Fund for the year ended June 30, 2013 is \$4,746,055.

If revenue estimates are realized, we expect to maintain our General Fund balance at the same level as we ended the current fiscal year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at Fairland School District, 202 W. Washington Ave., Fairland, OK 74343-4220.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2012**

**ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$ 1,572,698.90
Taxes Receivable	47,655.73
Due from Other Governments	15,475.48
Total Current Assets	<u>1,635,830.11</u>

## Noncurrent Assets:

Capital Assets, net of accumulated depreciation	5,056,172.32
Capital Assets, non-depreciable	98,151.00
Total Noncurrent Assets	<u>5,154,323.32</u>
<b>TOTAL ASSETS</b>	<u><u>6,790,153.43</u></u>

**LIABILITIES**

## Current Liabilities:

Accrued Interest Payable	4,339.95
Deferred Revenue	3,778.81
Current Portion of Capitalized Lease Obligations	123,214.79
Current Portion of Bonds Payable	60,000.00
Total Current Liabilities	<u>191,333.55</u>

## Noncurrent Liabilities

Capitalized Lease Obligations	107,736.29
Bonds Payable	430,000.00
Total Noncurrent Liabilities	<u>537,736.29</u>
<b>TOTAL LIABILITIES</b>	<u><u>729,069.84</u></u>

**NET ASSETS**

Invested in Capital Assets and Construction in Progress, Net of Related Debt	4,433,372.24
Restricted for Debt Service	35,632.33
Unrestricted	1,592,079.02
<b>TOTAL NET ASSETS</b>	<u><u>\$ 6,061,083.59</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Statement of Activities**  
**For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Instruction	\$ 2,440,032.47	\$ 1,200.00	\$ 398,315.16	\$ -	\$ (2,040,517.31)
Support Services					
Students	138,720.76	-	-	-	(138,720.76)
Instructional Staff	114,711.09	-	-	-	(114,711.09)
General Administration	148,904.68	-	-	-	(148,904.68)
School Administration	211,999.62	-	-	-	(211,999.62)
Business	141,471.60	-	-	-	(141,471.60)
Operation and Maintenance of Plant	392,276.60	-	-	-	(392,276.60)
Student Transportation	149,719.66	-	-	-	(149,719.66)
Non-Instruction Services					
Child Nutrition Programs	247,244.62	38,067.30	182,057.63	-	(27,119.69)
Capital Outlay	47,437.37	-	-	-	(47,437.37)
Other Outlays	519.35	-	-	-	(519.35)
Interest on Long-Term Debt	20,954.53	-	-	-	(20,954.53)
Unallocated Depreciation Expense	145,019.52	-	-	-	(145,019.52)
<b>Total Governmental Activities</b>	<u>\$ 4,199,011.87</u>	<u>\$ 39,267.30</u>	<u>\$ 580,372.79</u>	<u>\$ -</u>	<u>(3,579,371.78)</u>
<b>General Revenues:</b>					
Taxes					
Property Taxes					740,390.65
Other Taxes					293,983.07
State Aid - Formula Grants					2,480,166.56
Investment Earnings					4,179.19
Rent/Sale of Property					8,303.42
Miscellaneous					287.44
Reimbursements					30,725.29
<b>Total General Revenues</b>					<u>3,558,035.62</u>
<b>Change in Net Assets</b>					(21,336.16)
<b>Net Assets, Beginning</b>					<u>6,082,419.75</u>
<b>Net Assets, Ending</b>					<u>\$ 6,061,083.59</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Balance Sheet  
Governmental Funds  
For the Year Ended June 30, 2012**

	Special Revenue Funds				Total Governmental Funds
	General Fund	Child Nutrition Fund	Capital Projects Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,110,046.35	\$ 71,410.68	\$ 297,463.32	\$ 93,778.55	\$ 1,572,698.90
Taxes Receivable	44,964.61	-	-	2,691.12	47,655.73
Due from Other Governments	15,475.48	-	-	-	15,475.48
<b>Total Assets</b>	<u>\$ 1,170,486.44</u>	<u>\$ 71,410.68</u>	<u>\$ 297,463.32</u>	<u>\$ 96,469.67</u>	<u>\$ 1,635,830.11</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities:</b>					
Deferred Revenue	\$ -	\$ 3,778.81	\$ -	\$ -	\$ 3,778.81
<b>Fund Balance:</b>					
Fund Balance, Unassigned	1,170,486.44				1,170,486.44
Fund Balance, Reserved	-	67,631.87	297,463.32	96,469.67	461,564.86
<b>Total Fund Balance</b>	<u>1,170,486.44</u>	<u>67,631.87</u>	<u>297,463.32</u>	<u>96,469.67</u>	<u>1,632,051.30</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 1,170,486.44</u>	<u>\$ 71,410.68</u>	<u>\$ 297,463.32</u>	<u>\$ 96,469.67</u>	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$7,166,017.76 and the accumulated depreciation is \$2,011,694.44 for a net book value of \$5,154,323.32.

5,154,323.32

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Accrued Interest Payable	(4,339.95)	
General Obligation Bonds Payable	(490,000.00)	
Capitalized Lease Obligations Payable	<u>(230,951.08)</u>	<u>(725,291.03)</u>

Net Assets of Governmental Activities

\$ 6,061,083.59

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	Special Revenue Funds				
	General Fund	Child Nutrition Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources	\$ 563,023.72	\$ 38,238.38	\$ 365,000.00	\$ 164,888.99	\$ 1,131,151.09
Intermediate Sources	64,177.68	-	-	-	64,177.68
State Sources	2,686,482.96	16,698.43	-	63,792.76	2,766,974.15
Federal Sources	395,759.94	182,057.63	-	2,555.22	580,372.79
Total Revenues	<u>3,709,444.30</u>	<u>236,994.44</u>	<u>365,000.00</u>	<u>231,236.97</u>	<u>4,542,675.71</u>
Expenditures:					
Instruction	2,382,198.81	-	-	57,833.66	2,440,032.47
Support Services	1,299,574.38	-	-	68,838.32	1,368,412.70
Non-Instruction Services	186.11	257,050.08	-	-	257,236.19
Capital Outlay	-	-	67,536.68	69,155.82	136,692.50
Other Outlays	4.00	140.35	-	375.00	519.35
Bond Payments	-	-	-	100,000.00	100,000.00
Interest	-	-	-	8,230.00	8,230.00
Total Expenditures	<u>3,681,963.30</u>	<u>257,190.43</u>	<u>67,536.68</u>	<u>304,432.80</u>	<u>4,311,123.21</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	27,481.00	(20,195.99)	297,463.32	(73,195.83)	231,552.50
Cash Fund Balance Beginning of Year	<u>1,143,005.44</u>	<u>87,827.86</u>	<u>-</u>	<u>169,665.50</u>	<u>1,400,498.80</u>
Cash Fund Balance End of Year	<u>\$ 1,170,486.44</u>	<u>\$ 67,631.87</u>	<u>\$ 297,463.32</u>	<u>\$ 96,469.67</u>	<u>\$ 1,632,051.30</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures**  
**and Changes in Fund Balances to the District Wide Statement of Activities**  
**For the Year Ended June 30, 2012**

Excess of Revenues Collected Over Expenditures Paid - Governmental Funds	\$	231,552.50
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the district wide statements, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay expenditures	80,600.26	
Depreciation expense	\$ (145,019.52)	(64,419.26)

Payments on capitalized lease obligations are included in capital outlay expenditures in the governmental funds. The principal portion of these payments is reported as a reduction of liabilities in the district wide statements, while the interest portion of these lease payments is an expenditure.

Change in Accrued Interest Payable	1,734.20	
Principal payments on capital lease obligations	74,796.40	76,530.60

Long-term liabilities, including bonds payable, are not due in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year-end consist of

General Obligation Bonds Payments	100,000.00	
Bonds Obligations	(365,000.00)	(265,000.00)

Change in Net Assets of Governmental Activities	\$	(21,336.16)
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The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Statement of Assets, Liabilities and Fund Equity**  
**Fiduciary Funds**  
**June 30, 2012**

**ASSETS**

Cash and Cash Equivalents	\$	71,242.72
		71,242.72

**LIABILITIES**

Due to Students	\$	71,242.72
		71,242.72

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Statement of Changes in Assets and Liabilities**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2012**

<b>ACTIVITIES</b>	Balance July 1, 2011	Receipts	Disbursements	Balance June 30, 2012
After Prom	\$ 1,031.95	\$ 2,140.00	\$ 2,607.43	\$ 564.52
Annual	3,456.96	13,158.91	12,558.22	4,057.65
Athletics	15,645.21	105,110.68	93,522.72	27,233.17
Band	2,275.78	28,780.85	30,094.84	961.79
Class of 12	564.73	2,841.65	3,406.38	-
Class Of 13	540.00	4,123.29	3,117.88	1,545.41
Class of 14	295.00	205.00	500.00	-
Class of 15	-	2,840.00	1,799.25	1,040.75
Dance Team	2,661.19	33,937.43	35,529.26	1,069.36
Elementary	8,270.31	34,529.43	36,764.36	6,035.38
Elementary Library	2,087.01	4,167.16	3,971.48	2,282.69
Elementary Stuco	819.03	92.54	282.74	628.83
High School	873.08	2,697.68	2,089.37	1,481.39
Home Economics	496.76	6,994.14	6,843.08	647.82
Kindergarten	545.81	910.00	372.72	1,083.09
Library	2,832.68	3,578.80	3,584.24	2,827.24
Miscellaneous	2,418.33	11,269.76	11,498.87	2,189.22
National Honor Society	-	260.00	193.00	67.00
Recycling Acct	1,654.81	1,877.47	1,733.41	1,798.87
Special Olympics	2,022.31	1,948.29	1,698.64	2,271.96
Speech	158.23	-	101.11	57.12
Stuco	130.17	4,624.44	4,083.46	671.15
Technology	553.24	678.79	-	1,232.03
Trialgeo	244.84	100.00	-	344.84
Vo-Ag	8,347.63	66,372.10	63,568.29	11,151.44
<b>ASSETS</b>				
Cash	<u>\$ 57,925.06</u>	<u>\$ 333,238.41</u>	<u>\$ 319,920.75</u>	<u>\$ 71,242.72</u>
<b>LIABILITIES</b>				
Due to Students	<u>\$ 57,925.06</u>	<u>\$ 333,238.41</u>	<u>\$ 319,920.75</u>	<u>\$ 71,242.72</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.



**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**I. Summary of Significant Accounting Policies**

The following notes to the financial statements are an integral part of the District's financial statements.

The District's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units.

**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 (Board) composed of five elected members. The appointed superintendent is the executive officer of the District. The Board, constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Local Independent School District. The Board receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

These financial statements present only the activities of the District. There are no component units (entities considered to be financially accountable to the District).

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accounts of the District are organized and operated on the basis of funds and account groups. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

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

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District does not have any activities classified as business-type activities.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (continued)**

The District has the following fund types:

**Governmental Fund Types** - are used to account for most of the District'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).

Governmental fund types include the following funds:

General Fund - The General Fund is the general operating fund of the District. It accounts for all financial resources of the District, except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use. Major revenue sources include local property taxes and federal and state funding. 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 also accounts for federal and state financed programs where restricted monies must be expended for specific programs.

Special Revenue Funds - The special revenue funds account for revenue sources that are restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The special revenue funds are composed of the District's Building Fund Child Nutrition Fund and Insurance Recovery Fund. These are budgeted funds and any fund balances are considered as resources available for use.

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.

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 operations of the school cafeteria.

Coop Fund - The Coop Fund consists of monies derived from other Districts which participate in shared programs. This fund is used to account for the operations of the shared programs.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**B. Measurement Focus and Basis of Accounting (continued)**

Governmental fund types (continued):

Debt Service Fund - The Debt Service Fund consists of the District's Sinking Fund and accounts for the accumulation of financial resources for servicing of general long-term debt (principal, interest and related costs). This is a budgeted fund. The primary revenue sources are local property taxes levied specifically for debt service.

Capital Projects Fund - The Capital Projects fund consists of the District's Bond Fund and accounts for the proceeds of bond sales used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities and the acquisition of transportation equipment.

**Fiduciary Fund Types** - are used to account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Fiduciary fund types include the following funds:

Agency Fund - The Agency Fund is custodial in nature and does not present results of operations. Agency Funds are accounted for using the cash basis of accounting. This fund is the School Activities Fund which is used to account for monies collected principally through fund raising efforts of the students and District-sponsored groups. This is not a budgeted fund. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds. These funds have no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operation of the District.

**1. District-Wide Financial Statements**

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. As a general rule, the effect of interfund activity has been eliminated from these statements. All activities of the District are considered governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of Activities and Changes in Net Assets demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues include charges to customers who

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**1. District-Wide Financial Statements (continued)**

purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District-Wide Financial Statements are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

**2. Fund Financial Statements**

The Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances are also provided for all of the governmental and fiduciary funds of the District. The District's major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported separately from governmental funds.

The District reports the following major governmental funds:

- General Fund
- Child Nutrition Fund
- Capital Projects Fund

The District reports the following non-major governmental funds in aggregate:

- Building Fund
- Coop Fund
- Debt Service Fund

The Fund Financial Statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e. both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**C. Assets, Liabilities, Fund Balance, Revenue and Expenditures**

**1. Deposits and Investments**

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The District invests entirely in certificates of deposit, U.S. Treasury Securities, and participates in the Secured Investment Program of Oklahoma State School Boards Association, as authorized by Oklahoma Statutes Title 62, Section 348.

**2. Fair Value of Financial Instruments**

The District's financial instruments include cash and investments. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**3. Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**4. Interfund Transactions**

Interfund 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. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

**5. Inventories**

Governmental fund inventories are accounted for using the purchases method where materials and supplies are recorded as expenditures immediately when purchased. If the purchases method is used and significant inventory exists at the reporting date, an entry should be made to reflect the amount on hand.

**6. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the District-Wide Financial Statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**C. Assets, Liabilities, Fund Balance, Revenue and Expenditures (continued)**

**6. Capital Assets (continued)**

estimated historical cost if purchased or constructed. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

All reported capital assets are depreciated using the straight-line method over the following estimated useful lives: buildings and improvements (15-60 years); transportation equipment (5-15 years); equipment (5-15 years).

**7. Compensated Absences**

District employees are entitled to 10 days annual sick leave for illness of the employee or illness in the immediate family with full pay for those days used. Employees are not paid for unused sick days. These unused sick days may accumulate to a maximum of 180 days. Total accumulated unused sick days will be used in the computation of years of service and may entitle the employee to early retirement. In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**8. Long-Term Obligations**

In the District-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities. In the Fund Financial Statements, the face amount of debt issues is reported as revenues while principal and interest payment on debt are recorded as expenditures.

**9. Property Taxes and Other Local Revenues**

The District is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer. Property taxes are levied on November 1 and are due on receipt of the tax bill. The first half of taxes is due prior to January 1. The second half is due prior to April 1. If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the assessment. If not paid by the following October 1, the property is offered for sale for the amount of the 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. No provision has been made for uncollected taxes, as all taxes are deemed collectible. Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**C. Assets, Liabilities, Fund Balance, Revenue and Expenditures (continued)**

**10. 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.

**11. State Revenues**

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. Revenues from state sources for current operations are primarily governed by state aid formula under the provisions of 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.

**12. 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. Entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes. The majority of 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.

**13. Net Assets/Fund Balances**

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

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

**C. Assets, Liabilities, Fund Balance, Revenue and Expenditures (continued)**

**13. Net Assets/Fund Balances (continued)**

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed on the use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

***Restricted*** fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

***Committed*** fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The District's Board of Education is the highest level of decision making authority of the District.

***Assigned*** fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

***Unassigned*** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

**14. Resource Use Policy**

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the District considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the District's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the District considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.



**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**II. Stewardship, Compliance and Accountability**

**A. Budgetary Information**

The District is required by state law to prepare an annual budget. An annual Estimate of Needs is approved by the Board in September, filed with the County Clerk and approved by the County Excise Board. Supplemental appropriations are made during the year. The District's budget is prepared on a basis of accounting prescribed by the Oklahoma Department of Education which conforms to the system of accounting authorized by the State of Oklahoma. This regulatory basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**B. Encumbrance Accounting**

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. Purchase orders or contracts document encumbrances for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

**III. Detailed Notes Concerning the Funds**

**A. Cash and Investments**

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of June 30, 2012 none of the District's deposits were exposed to custodial credit risk.

*Interest rate risk:* This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**III. Detailed Notes Concerning the Funds (continued)**

**B. Changes in Capital Assets**

Capital asset activity for the year was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Non Depreciable</b>				
Land	\$ 98,151.00	\$ -	\$ -	\$ 98,151.00
<b>Depreciable Assets</b>				
Buildings and Improvements	6,518,029.70	18,358.70	-	6,536,388.40
Transportation Equipment	462,336.50	64,673.29	(41,411.00)	485,598.79
Equipment	35,888.00	9,991.57	-	45,879.57
Total	7,016,254.20	93,023.56	(41,411.00)	7,067,866.76
Accumulated Depreciation	(1,895,662.62)	(145,019.52)	28,987.70	(2,011,694.44)
Total Depreciable Assets	5,120,591.58	(51,995.96)	(12,423.30)	5,056,172.32
Net Capital Assets	\$ 5,218,742.58	\$ (51,995.96)	\$ (12,423.30)	\$ 5,154,323.32

**C. Long-Term Debt**

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

**Bonds**

The District issued building bonds in the amount of \$145,000.00 on July 1, 2007. The bond maturities begin July 1, 2009 in increments of \$35,000.00 per year with a final payment of \$40,000.00 on July 1, 2012. This bond was paid off during the current year.

The District issued building bonds in the amount of \$245,000.00 on June 1, 2009. The bond maturities began June 1, 2011 in increments of \$60,000.00 per year with a final payment of \$65,000.00 on June 1, 2014.

Debt service requirements for the 2009 building bonds are as follows:

Year Ended June 30,	General Obligation Bonds		Interest	Total Requirements
	Rate	Principal		
2013	3.50%	\$ 60,000.00	\$ 4,700.00	\$ 64,700.00
2014	4.00%	65,000.00	2,600.00	67,600.00
Totals		\$ 125,000.00	\$ 7,300.00	\$ 132,300.00

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**III. Detailed Notes Concerning the Funds (continued)**

**C. Long-Term Debt (continued)**

The District issued building bonds in the amount of \$365,000.00 on May 1, 2012. The bond maturities begin May 1, 2014 in increments of \$120,000.00 per year with a final payment of \$125,000.00 on May 1, 2016.

Debt service requirements for the 2012 building bonds are as follows:

Year Ended June 30,	General Obligation Bonds		Interest	Total Requirements
	Rate	Principal		
2013		\$ -	\$ 2,997.50	\$ 2,997.50
2014	0.600%	120,000.00	2,997.50	122,997.50
2015	0.700%	120,000.00	2,277.50	122,277.50
2016	1.150%	125,000.00	1,437.50	126,437.50
Totals		<u>\$ 365,000.00</u>	<u>\$ 9,710.00</u>	<u>\$ 374,710.00</u>

Debt service requirements for all bonds are as follows:

Year Ended June 30,	General Obligation Bonds		Interest	Total Requirements
	Rate	Principal		
2013	Various	\$ 60,000.00	\$ 7,697.50	\$ 67,697.50
2014	Various	185,000.00	5,597.50	190,597.50
2015	Various	120,000.00	2,277.50	122,277.50
2016	Various	125,000.00	1,437.50	126,437.50
Totals		<u>\$ 490,000.00</u>	<u>\$ 17,010.00</u>	<u>\$ 507,010.00</u>

**Capitalized Lease Obligations**

The District executed a lease to purchase real property on November 5, 2002. The original amount of the lease is \$70,995.13 with interest at 5.66% payable in monthly installments of \$494.80 and a balloon payment of \$60,427.90 due on January 31, 2009. This lease was renewed during the 2007-2008 year for \$60,303.99 with interest at 5.66%, payable in monthly installments of \$494.80, and a balloon payment of \$46,292.53 due January 31, 2013.

Year Ended June 30,			Total Requirements
	Principal	Interest	
2013	<u>\$ 47,711.33</u>	<u>\$ 1,550.00</u>	<u>\$ 49,261.33</u>

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**III. Detailed Notes Concerning the Funds (continued)**

**C. Long-Term Debt (continued)**

**Capitalized Lease Obligations (continued)**

The District executed a lease to purchase Crafton property on June 28, 2005. The amount of the lease is \$60,000.00 with interest at 5.79% payable in monthly installments with the final payment due on June 28, 2015. Future payments are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 6,910.74	\$ 1,006.98	\$ 7,917.72
2014	7,316.31	601.41	7,917.72
2015	7,747.55	170.17	7,917.72
Totals	<u>\$ 21,974.60</u>	<u>\$ 1,778.56</u>	<u>\$ 23,753.16</u>

The District executed a lease to purchase a Vo-Ag Building on September 29, 2005. The amount of the lease is \$150,000.00 with interest at 4.83% payable in monthly installments with the final payment due on November 1, 2013. Future payments are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 24,033.84	\$ 1,475.26	\$ 25,509.10
2014	12,453.88	300.67	12,754.55
Totals	<u>\$ 36,487.72</u>	<u>\$ 1,775.93</u>	<u>\$ 38,263.65</u>

The District executed a lease to purchase a Show Barn on May 8, 2007. The amount of the lease is \$160,000 with interest at 4.98% payable in annual installments with the final payment due on November 1, 2014. Future payments are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 23,882.74	\$ 3,749.92	\$ 27,632.66
2014	25,072.46	2,560.20	27,632.66
2015	26,321.41	1,311.25	27,632.66
Totals	<u>\$ 75,276.61</u>	<u>\$ 7,621.37</u>	<u>\$ 82,897.98</u>

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**III. Detailed Notes Concerning the Funds (continued)**

**C. Long-Term Debt (continued)**

**Capitalized Lease Obligations (continued)**

The District executed a lease to purchase a new roof on the Junior High on September 8, 2008. The amount of the lease is \$307,200 with interest at 2.898% payable in monthly installments of \$1,322.32 with the final payment due on February 8, 2014. Future payments are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 14,963.90	\$ 903.94	\$ 15,867.84
2014	10,387.18	191.37	10,578.55
Totals	<u>\$ 25,351.08</u>	<u>\$ 1,095.31</u>	<u>\$ 26,446.39</u>

The District executed a lease to purchase a Ford F250 Crew Cab Truck for the Vo-Ag department on June 1, 2011. The amount of the lease is \$39,658 with interest at 3.69% payable in annual payments, with the final payment due on June 13, 2016. A down payment of \$10,000 was made on June 13, 2011. Future payments are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 5,712.24	\$ 894.28	\$ 6,606.52
2014	5,923.77	682.75	6,606.52
2015	6,143.13	463.39	6,606.52
2016	6,370.60	235.92	6,606.52
Totals	<u>\$ 24,149.74</u>	<u>\$ 2,276.34</u>	<u>\$ 26,426.08</u>

Aggregate future minimum lease payments on all capital leases are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2013	\$ 123,142.60	\$ 9,652.57	\$ 132,795.17
2014	61,081.41	4,408.59	65,490.00
2015	40,139.90	2,017.00	42,156.90
2016	6,370.60	235.92	6,606.52
Totals	<u>\$ 230,734.51</u>	<u>\$ 16,314.08</u>	<u>\$ 247,048.59</u>

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**III. Detailed Notes Concerning the Funds (continued)**

**D. Changes in General Long-Term Debt**

Long-term debt consists of bonds payable and capital lease obligations. The following is a summary of the changes in general long-term debt of the District for the fiscal year.

	Balance June 30, 2011	Proceeds	Payments	Balance June 30, 2012	Due Within One Year
Bonds Payable	\$ 225,000.00	\$ 365,000.00	\$ 100,000.00	\$ 490,000.00	\$ 60,000.00
Lease Obligations	305,747.48	-	75,012.97	230,734.51	123,142.60
Total	<u>\$ 530,747.48</u>	<u>\$ 365,000.00</u>	<u>\$ 175,012.97</u>	<u>\$ 720,734.51</u>	<u>\$ 183,142.60</u>

**IV. Other Information**

**A. Risk Management**

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

The District also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the District reports the required contribution to the pool, net of refunds, as insurance expense. 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 them 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 District'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 their loss fund in three years it is returned to them with no interest.

The District is also a member of the Oklahoma Public Schools Unemployment Compensation Program. In the program, the District is required to contribute 1.6% of their taxable payroll for unemployment insurance. The funds for each district are kept separate and districts may elect to contribute more than 1.6% of their payroll. The money contributed by each district earns interest and is fully insured. If the District has claims in excess of the amount in their account, it would be liable for the excess.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**IV. Other Information (continued)**

**B. Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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.

**C. Non-Monetary Transactions**

The fair market value as determined by the Oklahoma Department of Human Services of the commodities received during the period under audit was \$11,422.07.

**D. Employee Retirement System and Plan**

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is cost-sharing, multiple-employer defined benefit public employee retirement system (PERS) 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 System issues a publicly available financial report that includes financial statements and required supplementary information. 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 may make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. The District and State are required to contribute 11.5% of applicable compensation. Contributions received by the System from the State of Oklahoma are from 3.54% of its revenues from sales taxes, use taxes, corporate income taxes and

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**IV. Other Information (continued)**

**D. Employee Retirement System and Plan (continued)**

Funding Policy (continued)

individual income taxes. The District contributed 7.05% during this year. The combined state and local rate will stabilize at 14.05%. The District is allowed by the 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 total contributions for 2012, 2011, and 2010 were \$211,612, \$215,103, and \$217,373, respectively. The employer contribution rates are established by the Oklahoma Legislature and are less than the annual required contribution, which is performed to determine the adequacy of such contribution rates.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA)(a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability (UAAL)(b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/(c)
6/30/2001	5,959.0	11,591.1	5,632.1	51.4%	2,990.5	188.3%
6/30/2002	6,310.9	12,275.9	5,965.0	51.4%	3,047.1	195.8%
6/30/2003	6,436.9	11,925.2	5,488.3	54.0%	3,045.7	180.2%
6/30/2004	6,660.9	14,080.1	7,419.2	47.3%	3,030.7	244.8%
6/30/2005	6,952.7	14,052.4	7,099.7	49.5%	3,175.2	223.6%
6/30/2006	7,470.4	15,143.4	7,672.9	49.3%	3,354.9	228.7%
6/30/2007	8,421.9	16,024.4	7,602.5	52.6%	3,598.9	211.2%
6/30/2008	9,256.8	18,346.9	9,090.1	50.5%	3,741.4	242.3%
6/30/2009	9,439.0	18,950.9	9,512.0	49.8%	3,807.9	249.8%
6/30/2010	9,566.7	19,980.6	10,414.0	47.9%	3,854.8	270.2%
6/30/2011	9,960.6	17,560.8	7,600.2	56.7%	3,778.3	201.4%

Note: Dollar amounts in millions

**E. Surety Bonds**

The Superintendent is bonded by Travelers Casualty and Surety Company, bond number 105310469, for the sum of \$100,000, for the term July 1, 2011 to July 1, 2012.

The Treasurer/Activity Fund Custodian is bonded by Hartford Insurance; bond number 38BSBFI3188, for the sum of \$100,000 for the term February 13, 2010 to February 13, 2013.

The minute/encumbrance clerk is bonded by RLI Insurance; bond number LSM0319859, for the sum of \$2,000 for the term August 31, 2011 to August 31, 2012.



**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Notes to the Financial Statements  
For the Year Ended June 30, 2012**

**IV. Other Information (continued)**

**F. Subsequent Events**

Management has evaluated subsequent events through November 20, 2012, 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.

**G. Correction of an Error**

During the current year, it was determined that the beginning fund balance of the General Fund of \$1,140,605.67 was understated by \$2,399.77 due to prior year receivables for Title VI, \$98.38, and Title VII, \$2,301.39, having not been recorded. The General Fund Balance has been increased to \$1,143,005.44. Due to the amount of revenue received in October 2011 for Carl Perkins being treated as a receivable, the beginning balance of the Co-Op fund of \$9,393.48 was reduced by \$1,564.91 to \$7,828.57. In addition there was a \$20.00 difference in the amount reported as Capital Leases in the government wide net assets. Due to these changes the beginning net assets have been increased from \$6,081,604.89 to \$6,082,419.05, or a net increase of \$814.86.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Combined Statement of Revenues Collected, Expenditures Paid and**  
**Changes in Fund Balances - Budget and Actual -**  
**Regulatory Basis - General Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues Collected:					
Local Sources	\$ 494,760.95	\$ 494,760.95	\$ 566,553.33	\$ -	\$ 71,792.38
Intermediate Sources	56,702.88	56,702.88	64,177.68	-	7,474.80
State Sources	2,625,001.95	2,625,001.95	2,703,016.56	-	78,014.61
Federal Sources	408,666.20	408,666.20	477,064.29	-	68,398.09
Total Revenues Collected	<u>3,585,131.98</u>	<u>3,585,131.98</u>	<u>3,810,811.86</u>	<u>-</u>	<u>225,679.88</u>
Expenditures Paid:					
Instruction	3,190,273.96	3,113,380.79	2,382,198.81	(76,893.17)	731,181.98
Support Services	1,360,802.81	1,437,191.98	1,299,574.38	76,389.17	137,617.60
Non-Instruction Services	-	500.00	186.11	500.00	313.89
Capital Outlay	-	-	-	-	-
Other Outlays	15,253.00	15,257.00	4.00	4.00	15,253.00
Other Uses	-	-	-	-	-
Total Expenditures Paid	<u>4,566,329.77</u>	<u>4,566,329.77</u>	<u>3,681,963.30</u>	<u>-</u>	<u>884,366.47</u>
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	(981,197.79)	(981,197.79)	128,848.56	-	1,110,046.35
Cash Fund Balance Beginning of Year	<u>981,197.79</u>	<u>981,197.79</u>	<u>981,197.79</u>	<u>-</u>	<u>-</u>
Cash Fund Balance End of Year	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 1,110,046.35</u>	<u>\$ -</u>	<u>\$ 1,110,046.35</u>

Amount reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Taxes Receivable	44,964.61
Due from Other Governments	<u>21,034.94</u>
Cash Fund Balance - General Fund	<u>\$ 1,176,045.90</u>

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Combined Statement of Revenues Collected, Expenditures Paid and**  
**Changes in Fund Balances - Budget and Actual -**  
**Regulatory Basis – Child Nutrition Fund**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues Collected:					
Local Sources	\$ 31,003.79	\$ 31,003.79	\$ 38,238.38	\$ -	\$ 7,234.59
State Sources	16,059.99	16,059.99	16,698.43	-	638.44
Federal Sources	175,143.19	175,143.19	185,836.44	-	10,693.25
Total Revenues Collected	<u>222,206.97</u>	<u>222,206.97</u>	<u>240,773.25</u>	<u>-</u>	<u>18,566.28</u>
Expenditures Paid:					
Support services	10.66	10.66	-	-	10.66
Non-Instruction Services	309,874.17	309,874.17	257,050.08	-	52,824.09
Repayments	150.00	150.00	140.35	-	9.65
Total Expenditures Paid	<u>310,034.83</u>	<u>310,034.83</u>	<u>257,190.43</u>	<u>-</u>	<u>52,844.40</u>
Excess (Deficit) of Revenues Collected Over (Under) Expenditures Paid	(87,827.86)	(87,827.86)	(16,417.18)	-	71,410.68
Cash Fund Balance Beginning of Year	<u>87,827.86</u>	<u>87,827.86</u>	<u>87,827.86</u>	<u>-</u>	<u>-</u>
Cash Fund Balance End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,410.68</u>	<u>\$ -</u>	<u>\$ 71,410.68</u>

Amount reported for building fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Deferred Revenue	<u>(3,778.81)</u>
Cash Fund Balance - Building Fund	<u>\$ 67,631.87</u>

**OTHER SUPPLEMENTARY INFORMATION**

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Combining Balance Sheet – Special Revenue Funds**  
**For the Year Ended June 30, 2012**

	Special Revenue Funds			Total Governmental Funds
	Building Fund	CoOp Fund	Debt Service Fund	
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 50,990.30	\$ 8,612.57	\$ 34,175.68	\$ 93,778.55
Taxes Receivable	1,234.47	-	1,456.65	2,691.12
<b>Total Assets</b>	<u>\$ 52,224.77</u>	<u>\$ 8,612.57</u>	<u>\$ 35,632.33</u>	<u>\$ 96,469.67</u>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>Fund Equity:</b>				
Fund Balance, Reserved	\$ 52,224.77	\$ 8,612.57	\$ 35,632.33	\$ 96,469.67
<b>Total Liabilities and Fund Balance</b>	<u>\$ 52,224.77</u>	<u>\$ 8,612.57</u>	<u>\$ 35,632.33</u>	<u>\$ 96,469.67</u>

**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Special Revenue Funds**  
**For the Year Ended June 30, 2012**

	Special Revenue Funds			Total
	Building Fund	Co-Op Fund	Debt Service Fund	Governmental Funds
Revenues:				
Local Sources	\$ 83,228.78	\$ -	\$ 81,660.21	\$ 164,888.99
State Sources	-	63,792.76	-	63,792.76
Federal Sources	2,555.22	-	-	2,555.22
Total Revenues	<u>85,784.00</u>	<u>63,792.76</u>	<u>81,660.21</u>	<u>231,236.97</u>
Expenditures:				
Instruction	-	57,833.66	-	57,833.66
Support Services	63,663.22	5,175.10	-	68,838.32
Capital Outlay	69,155.82	-	-	69,155.82
Other Outlays	375.00	-	-	375.00
Bond Payments	-	-	100,000.00	100,000.00
Interest	-	-	8,230.00	8,230.00
Total Expenditures	<u>133,194.04</u>	<u>63,008.76</u>	<u>108,230.00</u>	<u>304,432.80</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	(47,410.04)	784.00	(26,569.79)	(73,195.83)
Cash Fund Balance Beginning of Year	<u>99,634.81</u>	<u>7,828.57</u>	<u>62,202.12</u>	<u>169,665.50</u>
Cash Fund Balance End of Year	<u>\$ 52,224.77</u>	<u>\$ 8,612.57</u>	<u>\$ 35,632.33</u>	<u>\$ 96,469.67</u>

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Approved Amount</u>	<u>Balance at July 1, 2011</u>	<u>Receipts</u>	<u>Federal Expenditures</u>	<u>Receivables / (Payables) Balance at June 30, 2012</u>
<b>U.S. Department of Education</b>							
<i>Direct Programs:</i>							
Impact Aid	84.041	591	\$ 43,183.07	\$ -	\$ 4,644.93	\$ 4,644.93	\$ -
Title VII, Part A - Indian Education	84.060	561	44,977.00	7,246.91	51,947.58	44,700.67	-
<i>Passed Through State Department of Education:</i>							
Title I, Part A - Improving Basic Programs	84.010	511	124,432.73	30,330.60	150,936.50	119,937.40	-
IDEA-B	84.027	621 / 623	158,073.00	18,896.17	173,686.87	154,790.70	-
IDEA-B Preschool	84.173	641	2,026.79	342.47	1,911.48	1,569.01	-
ARRA Education Jobs Fund	84.410	790	842.59	18,343.32	19,185.91	842.59	-
Title VI, REAP	84.358B	586	22,559.16	2,255.21	24,814.37	22,559.16	-
Title VI, Subpart 2 - SRSAG	84.358A	588	31,559.00	4,904.63	31,344.25	30,884.40	4,444.78
<i>Passed Through Oklahoma Department of Vocational Education:</i>							
Job Training - Rehabilitation Services	84.126	456	9,019.01	-	2,927.91	2,927.91	-
Carl Perkins Programs	84.048	421	4,681.88	-	4,681.88	4,681.88	-
<b>Total U.S. Department of Education</b>			<u>\$ 441,354.23</u>	<u>\$ 82,319.31</u>	<u>\$ 466,081.68</u>	<u>\$ 387,538.65</u>	<u>\$ 4,444.78</u>

Continued on next page



**Fairland School District No. I-31**  
**Ottawa County, Oklahoma**  
**Schedule of Expenditures of Federal Awards (continued)**  
**For the Year Ended June 30, 2012**

<b>Federal Grantor/Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Grantor's Number</b>	<b>Approved Amount</b>	<b>Balance at July 1, 2011</b>	<b>Receipts</b>	<b>Federal Expenditures</b>	<b>Receivables / (Payables) Balance at June 30, 2012</b>
<b>U.S. Department of Agriculture</b>							
<i>Passed Through State Department of Education:</i>							
National School Breakfast Program	10.553	764	\$ N/A	\$ -	\$ 42,826.41	\$ 42,826.41	\$ -
National School Lunch Program	10.555	763	N/A	-	143,010.03	139,231.22	(3,778.81)
 Passed Through Department of Health & Human Services							
Commodities - Note B	10.550	385	\$ N/A	\$ -	\$ 11,422.07	\$ 11,422.07	\$ -
 <i>Passed Through Oklahoma Health Care Authority</i>							
Medicaid Resources	93.778		\$ -	\$ -	\$ 7,784.58	\$ 7,784.58	\$ -
 <b>Total U.S. Department of Agriculture</b>			\$ -	\$ -	\$ 205,043.09	\$ 201,264.28	\$ (3,778.81)
 <b><u>Other Federal Assistance</u></b>							
Johnson O'Malley Program	15.130	563	\$ 9,250.00	\$ 3,436.97	\$ 7,879.91	\$ 9,249.63	\$ 4,806.69
 Total Other Federal			\$ 9,250.00	\$ 3,436.97	\$ 7,879.91	\$ 9,249.63	\$ 4,806.69
 <b>TOTAL FEDERAL ASSISTANCE</b>			\$ 450,604.23	\$ 85,756.28	\$ 679,004.68	\$ 598,052.56	\$ 5,472.66

**Note A** - This schedule was prepared on the accrual basis of accounting. The information in this schedule is presented in Accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note B** - Food Distribution: Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Accountant's Professional Liability Insurance Affidavit  
For the Year Ended June 30, 2012**

State of Oklahoma    )  
                                  )ss  
County of Craig        )

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Fairland Public Schools for the audit year 2011-2012.

Turner & Associates, PLC

\_\_\_\_\_  
Auditing Firm

by \_\_\_\_\_  
Authorized Agent

Subscribed and sworn to before me this 20<sup>th</sup> day of November, 2012.

Notary Public (or Clerk or Judge)

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Fairland School District.
2. Two deficiencies relating to the audit of the basic financial statements are reported in the 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*. Both are considered material weaknesses.
3. No instances of noncompliance material to the financial statements of Fairland School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No deficiencies in internal control over major federal award programs during the audit is reported in the 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*.
5. The auditor's report on compliance for the major federal award programs for Fairland School District expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs included: Title I - CFDA No. 84.010; Title I ARRA - CFDA 84.389; IDEA B Flowthrough - CFDA No. 84.027; IDEA B Preschool - CFDA No. 84.173; USDA Breakfast - CFDA No. 10.553; and, USDA Lunch - CFDA No. 10.555.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Fairland School District is not a low-risk auditee

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**FINDINGS - FINANCIAL STATEMENT AUDIT**

**2012-1 Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP**

*Criteria:*

The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

*Condition:*

As is the case with many smaller and medium-sized entities, the District has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls.

*Cause:*

District personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

*Effect or Potential Effect:*

As a result of this condition, without assistance from its external auditors or another outside source, the District may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

2012-1 Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP  
(continued)

*Recommendation:*

We recommend that the District consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

*Client Response:*

We concur with the recommendations for consulting with an accounting professional on significant transactions, but we feel it is cost prohibitive to have our year-end report with disclosures prepared by an accounting professional and then engage an auditor to prepare the same report with his opinions.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

**2012-2 Material Adjusting Journal Entries**

*Criteria:*

The District's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

*Condition:*

The District's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; adjusting note activity for unrecorded debt; recording accounting activity for funds held at county; recording adjustments from the prior period; writing off outstanding checks; adjusting payroll taxes, prepaid insurance, accrued interest, interest earned, meter deposits payable, depreciation, and due from other governments.

*Cause:*

The District's accounting and financial reporting staff does not possess the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2012**

**FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

**2012-2 Material Adjusting Journal Entries (continued)**

*Effect:*

As a result of this condition, without assistance from its external auditors, the District lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

*Recommendation:*

The District should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

*Client Response:*

School accounting staff will continue to participate in continuing education activities offered by the State Department of Education and other agencies. The staff will gain experience each year. All school district financial personnel will continue to train and be involved in all updates to the financial software that produces financial statements. At the present time it is not financially feasible for the school district to employ another outside agency to produce financial statements to be audited.

**Fairland School District No. I-31  
Ottawa County, Oklahoma  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2012**

**PRIOR AUDIT FINDINGS**

There were no prior year audit findings.