

ANNUAL FINANCIAL REPORT
INDEPENDENT SCHOOL DISTRICT NO. 5
EARLSBORO PUBLIC SCHOOL DISTRICT
POTTAWATOMIE COUNTY, OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

EARLSBORO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 5
POTTAWATOMIE, COUNTY
JUNE 30, 2011

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EARLSBORO PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 5
POTTAWATOMIE, COUNTY
JULY 1, 2010 TO JUNE 30, 2011

SCHOOL DISTRICT BOARD MEMBERS

Phyllis Crosswell
Kenneth Brooks
Jamie Baker
Rachelle Jones
Louie Goad

SUPERINTENDENT OF SCHOOL DISTRICT

Mark Maloy

CLERK OF THE BOARD

Rachelle Jones

SCHOOL DISTRICT TREASURER

Wendy Mangus

PUTNAM & COMPANY, PLLC
Certified Public Accountants
169 S.E. 32ND
EDMOND, OKLAHOMA 73013
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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Earlsboro Independent School District No. 5
Pottawatomie County, Oklahoma

We have audited the accompanying fund type and account group financial statements of Earlsboro School District No. 5, Pottawatomie County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Earlsboro School District, No. 5, Pottawatomie County, Oklahoma. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of Earlsboro School District No. 5, Oklahoma, as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2012, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

This report is intended solely for the information and use of the Board of Education of Earlsboro School District No. 5, Oklahoma State Department of Education, and certain federal regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Putnam & Company
Putnam & Company, PLLC

Edmond, Oklahoma
April 4, 2012

COMBINED FINANCIAL STATEMENTS

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF ASSETS AND LIABILITIES
(ALL FUND TYPES AND ACCOUNT GROUPS) - REGULATORY BASIS
JUNE 30, 2011**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>(Memorandum Only)</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	<u>\$275,125</u>	<u>79,303</u>	<u>23,168</u>	<u>377,596</u>
Total Assets	<u>\$275,125</u>	<u>79,303</u>	<u>23,168</u>	<u>377,596</u>
<u>LIABILITIES</u>				
Warrants Payable	<u>96,887</u>	<u>8,481</u>	<u>98</u>	<u>105,466</u>
Total Liabilities	<u>96,887</u>	<u>8,481</u>	<u>98</u>	<u>105,466</u>
<u>FUND EQUITY</u>				
Fund Equity:				
Reserved for Encumbrances	5,582			5,582
Fund Balance	<u>172,656</u>	<u>70,822</u>	<u>23,070</u>	<u>266,548</u>
Total Fund Equity	<u>178,238</u>	<u>70,822</u>	<u>23,070</u>	<u>272,130</u>
Total Liabilities and Fund Equity	<u>\$275,125</u>	<u>79,303</u>	<u>23,168</u>	<u>377,596</u>

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

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Fund Types		Fiduciary Fund Types	Totals
	General	Special Revenue	Trust and Agency	(Memorandum Only)
REVENUES:				
Local Sources	\$185,391	70,089	55,948	311,428
Intermediate Sources	24,864			24,864
State Sources	1,144,256	9,974		1,154,230
Federal Sources	310,567	101,426		411,993
Total Revenues	1,665,078	181,489	55,948	1,902,515
EXPENDITURES:				
Instruction	999,645			999,645
Support Services	654,955	48,323		703,278
Operation of Non Instruction Services		118,354	58,605	176,959
Other Outlays	200			200
Repayments	764			764
Total Expenditures	1,655,564	166,677	58,605	1,880,846
Revenues Over (Under) Expenditures	9,514	14,812	(2,657)	21,669
OTHER FINANCING SOURCES (USES):				
Return of Assets		9,638		9,638
Estopped Warrants	312			312
Total Other Financing Sources (Uses):	312	9,638	0	9,950
Revenue and Other Sources Over (Under) Expenditures and Other Uses	9,826	24,450	(2,657)	31,619
Fund Balance, Beginning of Year	162,830	46,372	25,727	234,929
Fund Balance, End of Year	\$172,656	70,822	23,070	266,548

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

EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND AND BUDGETED SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund				Special Revenue Funds			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:								
Local Sources	\$174,323	174,323	185,391	11,068	24,924	25,697	70,089	44,392
Intermediate Sources	22,665	22,665	24,864	2,199				0
State Sources	1,101,616	1,101,616	1,144,256	42,640	1,747	7,514	9,974	2,460
Federal Sources	118,195	293,199	310,567	17,368	83,068	97,935	101,426	3,491
Total Revenues	<u>1,416,799</u>	<u>1,591,803</u>	<u>1,665,078</u>	<u>73,275</u>	<u>109,739</u>	<u>131,146</u>	<u>181,489</u>	<u>50,343</u>
EXPENDITURES :								
Instruction	1,579,629	1,579,629	999,645	579,984				0
Support Services			654,955	-654,955	55,932	55,932	48,323	7,609
Operation of Non Instruction Services				0	100,179	121,586	118,354	3,232
Facilities Acquisition & Construction Services		175,004		175,004				0
Other Outlays			200	-200				0
Repayments			764	-764				0
Total Expenditures	<u>1,579,629</u>	<u>1,754,633</u>	<u>1,655,564</u>	<u>99,069</u>	<u>156,111</u>	<u>177,518</u>	<u>166,677</u>	<u>10,841</u>
Revenues Over (Under) Expenditures	<u>(162,830)</u>	<u>(162,830)</u>	<u>9,514</u>	<u>172,344</u>	<u>(46,372)</u>	<u>(46,372)</u>	<u>14,812</u>	<u>61,184</u>
OTHER FINANCING SOURCES (USES):								
Return of Assets				0			9,638	9,638
Estopped Warrants			312	312				0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>312</u>	<u>312</u>	<u>0</u>	<u>0</u>	<u>9,638</u>	<u>9,638</u>
Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>(162,830)</u>	<u>(162,830)</u>	<u>9,826</u>	<u>172,656</u>	<u>(46,372)</u>	<u>(46,372)</u>	<u>24,450</u>	<u>70,822</u>
Fund Balance, Beginning of Year	<u>162,830</u>	<u>162,830</u>	<u>162,830</u>	<u>0</u>	<u>46,372</u>	<u>46,372</u>	<u>46,372</u>	<u>0</u>
Fund Balance, End of Year	<u>\$0</u>	<u>0</u>	<u>172,656</u>	<u>172,656</u>	<u>0</u>	<u>0</u>	<u>70,822</u>	<u>70,822</u>

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

NOTES TO FINANCIAL STATEMENTS

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Earlsboro Public Schools Dependent District No. 5, Pottawatomie County, Oklahoma (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma statutes and accordingly is a separate entity for operating and financial reporting purposes.

The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

In evaluating how to define the district, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Based upon the application of these criteria, there are no potential component units included in the District's reporting entity.

B. Fund Accounting and Description of Funds

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

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

B. Fund Accounting and Description of Funds – (continued)

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

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

Governmental Fund Types

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

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

Special Revenue Fund – The special revenue fund is the District’s Building Fund. The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

The Child Nutrition Fund derives monies from State, Federal and local sources.

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

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

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a trust agreement, trust funds are used for their accounting and reporting. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

Account Groups

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

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

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

Memorandum Only – Total Column - The total column on the general purpose financial statements is captioned “memorandum only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

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

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

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

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

C. Basis of Accounting and Presentation – (continued)

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

D. Budgets and Budgetary Accounting

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

The District may upon approval by a majority of the electors of the District voting on the question make the ad valorem levy for emergency levy and local support levy permanent. Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments – Investments consist of direct obligations of the United States Government and Agencies with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

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

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

EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

E. Assets, Liabilities, and Fund Equity – (continued)

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

Capital Assets – The accounting treatment over capital assets (property, plant, and equipment) depends on whether the assets are used in governmental fund-type operations or proprietary fund-type operations. Fixed assets used in governmental fund-type operations (general fixed assets) are recorded for as capital outlay expenditures of the governmental fund-type upon acquisition and are recorded as property, plant, and equipment in the General Fixed Asset Account Group. Fixed assets used in proprietary fund-type operations are accounted for as property, plant, and equipment within the proprietary fund itself.

All fixed assets are valued at historical cost, or estimated cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Depreciation and accumulated depreciation are not reported against general fixed assets.

Compensated Absences – The district provides vacation and sick leave benefits in accordance with Oklahoma Statutes, which provides for annual sick leave and personal business days. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources.

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

F. Revenue, Expenses, and Expenditures

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

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

F. Revenue, Expenses, and Expenditures – (continued)

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.

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. These rules also 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.

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

2. DEPOSIT AND INVESTMENT RISKS

Custodial Credit Risk - The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct debt obligations of the state, municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2011, the District was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The District's investment policy limits investments to those allowed in state law applicable to school districts as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Investment Credit Risk (continued) - Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s investment policy limits investments to those with a short-term maturities, as a means of managing exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District’s investment policy requires diversification of investments..

At June 30, 2011, the District had no concentration of credit risk as defined above.

3. INTERFUND RECEIVABLES AND PAYABLES

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

4. GENERAL LONG-TERM DEBT

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

General long-term debt of the District normally consists of bonds payable, obligations for compensated absences, early retirement incentive, and a capital lease. Debt service requirements for bonds are payable solely from fund balance and future revenues for the debt service fund.

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5. EMPLOYEE RETIREMENT SYSTEM

Basis of Accounting

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements have also been prepared in compliance with the requirements of the Government Accounting Standards Board Statement No. 34.

The financial statements are prepared on the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are recognized when due, pursuant to formal commitments. Benefits and refunds are recognized when due and payable.

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. Actuarial valuations are not performed on individual school districts. The nonfunded pension benefit obligation of the System, as determined as part of the latest actuarial valuation indicates a significant unfunded pension benefit obligation.

Funding Policy

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two (62) or with reduced benefits as early as age fifty-five (55). The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years of contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his/her accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. Employers' contribution of applicable employee earnings was 9.5% through June 30, 2011.

Annual Pension Cost

The District's contribution to the System for the year ending June 30, 2011, was \$88,430. The District's total payroll for fiscal year 2010-11 was \$930,841.

**EARLSBORO SCHOOL DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

6. CONTINGENCIES

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

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the District believes the resolution of these matters will not have a material adverse effect on the financial condition of the District.

7. RISK MANAGEMENT AND LITIGATION

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, employees' health and life, and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through April 4, 2012, which is the date the financial statements were issued.

OTHER SUPPLEMENTARY INFORMATION

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS AND LIABILITIES - REGULATORY BASIS
SPECIAL REVENUE FUNDS
JUNE 30, 2011**

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTALS (Memorandum Only)</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	<u>\$59,474</u>	<u>19,829</u>	<u>79,303</u>
Total Assets	<u><u>\$59,474</u></u>	<u><u>19,829</u></u>	<u><u>79,303</u></u>
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants Outstanding	<u>\$7,470</u>	<u>1,011</u>	<u>8,481</u>
Total Liabilities	<u>7,470</u>	<u>1,011</u>	<u>8,481</u>
Fund Equity:			
Reserved for Encumbrances			0
Fund Balance	<u>52,004</u>	<u>18,818</u>	<u>70,822</u>
Total Fund Equity	<u>52,004</u>	<u>18,818</u>	<u>70,822</u>
Total Liabilities and Fund Equity	<u><u>\$59,474</u></u>	<u><u>19,829</u></u>	<u><u>79,303</u></u>

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

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - REGULATORY BASIS
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTALS (Memorandum Only)</u>
Revenues:			
District Sources	\$69,316	773	70,089
State Sources	3	9,971	9,974
Federal Sources		101,426	101,426
	<u>69,319</u>	<u>112,170</u>	<u>181,489</u>
Total Revenues			
	<u>69,319</u>	<u>112,170</u>	<u>181,489</u>
Expenditures:			
Support Services	48,323		48,323
Operation of Non Instruction Services		118,354	118,354
	<u>48,323</u>	<u>118,354</u>	<u>166,677</u>
Total Expenditures			
	<u>48,323</u>	<u>118,354</u>	<u>166,677</u>
Revenues Over (Under) Expenditures	20,996	(6,184)	14,812
Other Financing Sources (Uses):			
Return of Assets		9,638	9,638
	<u>0</u>	<u>9,638</u>	<u>9,638</u>
Total Other Financing Sources (Uses)			
	<u>0</u>	<u>9,638</u>	<u>9,638</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	20,996	3,454	24,450
Fund Balance, Beginning of Year	<u>31,008</u>	<u>15,364</u>	<u>46,372</u>
Fund Balance, End of Year	<u>\$52,004</u>	<u>18,818</u>	<u>70,822</u>

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

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGETED SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

	Building Fund			Child Nutrition Fund			
	Original/ Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:							
Local Sources	\$24,924	69,316	44,392		773	773	773
State Sources		3	3	1,747	7,514	9,971	8,224
Federal Sources			0	83,068	97,935	101,426	18,358
Total Revenues	24,924	69,319	44,395	84,815	106,222	112,170	27,355
EXPENDITURES :							
Support Services	55,932	48,323	7,609				0
Operation of Non-Instructional Services			0	100,179	121,586	118,354	(18,175)
Total Expenditures	55,932	48,323	7,609	100,179	121,586	118,354	(18,175)
Revenues Over (Under) Expenditures	(31,008)	20,996	52,004	(15,364)	(15,364)	(6,184)	9,180
OTHER FINANCING SOURCES (USES):							
Return of Assets			0			9,638	9,638
Total Other Financing Sources (Uses)	0	0	0	0	0	9,638	9,638
Revenue and Other Sources Over (Under) Expenditures and Other Uses	(31,008)	20,996	52,004	(15,364)	(15,364)	3,454	18,818
Fund Balance, Beginning of Year	31,008	31,008	0	15,364	15,364	15,364	0
Fund Balance, End of Year	\$0	52,004	52,004	0	0	18,818	18,818

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

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
REGULATORY BASIS - ACTIVITY FUND
JULY 1, 2010 TO JUNE 30, 2011**

	<u>Beginning Balance</u>	<u>Receipts</u>	<u>Transfers</u>	<u>Disbursements</u>	<u>Ending Balance</u>
Seniors	\$353.26	936.50		1,169.76	120.00
Juniors	1,091.90	1,890.00		2,252.79	729.11
Sophomores	302.95	177.76		25.00	455.71
Freshmen	1,086.50	1,488.00		835.00	1,739.50
Eighth Grade	0.00	474.10		474.10	0.00
Elementary	4,383.05	3,917.52		5,799.51	2,501.06
Athletics	5,855.71	31,810.16		32,565.15	5,100.72
Cheerleader	457.87	3,696.11		3,276.16	877.82
Petty Cash	0.01	200.00		200.00	0.01
General Account	497.32	3,270.64		3,009.47	758.49
Indian Club	42.00	0.00		0.00	42.00
Student Council	156.32	0.00		25.00	131.32
Yearbook	3,659.56	4,808.80		3,888.50	4,579.86
NHS	337.86	1,287.00		1,189.00	435.86
Junior High Athletics	27.54	0.00		0.00	27.54
Academic Booster Club	3,352.93	0.00		1,915.97	1,436.96
Spanish Club	415.84	0.00		0.00	415.84
Speech Drama	257.71	0.00		0.00	257.71
Baseball	196.53	0.00		0.00	196.53
Art	8.00	0.00		0.00	8.00
Library	1,915.69	1,758.48		1,658.00	2,016.17
Saso	1,328.75	232.77		321.28	1,240.24
	<u>\$25,727.30</u>	<u>55,947.84</u>	<u>0.00</u>	<u>58,604.69</u>	<u>23,070.45</u>

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

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

	Federal CFDA Number	Project Code	Program or Award Amount	Cash/ Beginning Balance at July 1, 2009	Federal Receipts	Federal Expenditures	Cash/ Ending Balance at June 30, 2010
Direct							
Impact Aid - P.L. 874	84.041	591	\$58,562.35		58,562.35	58,562.35	0.00
Indian Ed	84.060	561	15,934.00		15,934.00	15,934.00	0.00
Sub-total			74,496.35	0.00	74,496.35	74,496.35	0.00
U.S. Department of Education							
Passed through the Department of Education							
Title I	84.010	511	69,130.76		52,387.40	69,130.76	(16,743.36)
Title I - ARRA	84.389	516	28,828.46		14,567.39	28,828.46	(14,261.07)
Title II - Part A - REAP	84.367	586	27,769.60		22,794.88	22,794.88	0.00
Title II - Part A - REAP - Prior year	84.367	799		(645.90)	645.90		0.00
Title II - Part D - REAP	84.318	586	230.14		230.14	230.14	0.00
REAP	84.368	588	16,922.00		16,922.00	16,922.00	0.00
REAP - Prior Year	84.368	799		(1,431.16)			(1,431.16)
IDEA Part B Flowthrough	84.027	621	48,090.58				0.00
IDEA Part B Flowthrough - ARRA, Prior Year	84.391	799		(13,507.60)	13,507.60		0.00
Preschool - ARRA	84.392A	643	1,527.72		1,527.72	1,527.72	0.00
Foundation & Salary Incentive - ARRA	84.394	782	55,181.00		55,181.00	55,181.00	0.00
Foundation & Salary Incentive - ARRA - Prior Year	84.394	782	78,665.00		13,743.00	13,743.00	0.00
GSF - ARRA - Prior Year	84.397	789	5,750.00		7.00	7.00	0.00
Education Jobs	84.410	790	45,058.00		45,058.00	45,058.00	0.00
Sub-total			192,499.26	(15,584.66)	236,572.03	253,422.96	(32,435.59)
U.S. Department of Agriculture							
Passed Through the State Department of Education							
Donated Foods	10.550	385	6,914.96		6,551.22	6,551.22	0.00
Food Service Programs - Breakfasts	10.553	385	28,037.54		28,037.54	28,037.54	0.00
Food Service Programs - Lunches	10.555	385	73,388.46		73,388.46	73,388.46	0.00
Sub-total			108,340.96	0.00	107,977.22	107,977.22	0.00
Total Federal Assistance			\$375,336.57	(15,584.66)	419,045.60	435,896.53	(32,435.59)

Note A: Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Earlsboro Public Schools District and is presented on another comprehensive basis of accounting conforming with the accounting practices prescribed or permitted by the Oklahoma State Department of Education which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this method, expenditures are recognized when an approved purchase order is issued.

Note B: Commodities representing non-cash expenditures have been included in the Schedule of Federal Awards which is an exception to the prescribed basis of accounting.

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

**EARLSBORO SCHOOL DISTRICT NO. 5
STATEMENT OF STATUTORY, FIDELITY, AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2011**

Wendy Magnus – Treasurer
Employee Dishonesty Bond
ACCO-SIG2007
\$100,000 Limit
Effective July 1, 2010 to June 30, 2011

Connie Rawls – Activity Fund Clerk & Encumbrance Clerk
CNA Surety – Policy No. 69981123
\$75,000 Limit
Effective October 1, 2010 to September 30, 2011

Shelly Yoder – High School Secretary
CNA Surety – Policy No. 69981123
\$10,000 Limit
Effective October 1, 2010 to September 30, 2011

Amanda Douglas – Elementary Secretary
CNA Surety – Policy No. 69981123
\$10,000 Limit
Effective October 1, 2010 to September 30, 2011

Mark Maloy - Superintendent
RBC Agency, Inc.
\$100,000 Limit
Effective July 1, 2010 to June 30, 2011

Employee Dishonesty Bond
OSIG – Policy No. RCN20100359401
\$10,000 Limit
Effective July 1, 2010 to June 30, 2011

INTERNAL CONTROL AND COMPLIANCE REPORTS

PUTNAM & COMPANY, PLLC

Certified Public Accountants

169 S.E. 32ND

EDMOND, OKLAHOMA 73013

(405) 348-3800

Fax (405) 348-7965

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
Earlsboro School District No. 5
Pottawatomie County, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Earlsboro School District No. 5, Pottawatomie County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the District's financial statements and have issued our report thereon dated April 4, 2012. The report on these financial statements is adverse with respect to the presentation of financial statements in conformity with accounting principles generally accepted in the United States of America because the District has elected to prepare its financial statements in conformity with a regulatory basis of accounting. 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A 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 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.

Our consideration of internal control over financial reporting was for the limited purpose prescribed 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Earlsboro School District No. 5 in a separate letter dated April 4, 2012.

This report is intended solely for the information and use of management, the audit committee and others within the organization, 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. However, though restricted in use, this report is a matter of public record, and its distribution is not limited.


Putnam & Company, PLLC

Edmond, Oklahoma
April 4, 2012

ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT

MANAGEMENT LETTER AND COMMENTS

PUTNAM & COMPANY, PLLC

Certified Public Accountants

169 S.E. 32ND

EDMOND, OKLAHOMA 73013

(405) 348-3800

Fax (405) 348-7965

April 4, 2012

The Honorable Board of Education
Earlsboro School District No. 5
Pottawatomie County, Oklahoma

We have audited financial statements of Earlsboro School District No. 5, Pottawatomie County, Oklahoma, as of and for the year ended June 30, 2011, as listed in the table of contents, and have issued our report thereon dated April 4, 2012. As a part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and we do not express such an opinion.

However, during our audit we became aware of some matters that, while not involving material weaknesses in internal accounting control, are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated April 4, 2012 on the financial statements of Earlsboro School District No. 5.

We will review the status of these comments during our next audit engagement. We would be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

We also wish to express our appreciation of the courteous attention and cooperation which we received from staff members during our engagement.

Sincerely,



Jerry W. Putnam

**EARLSBORO SCHOOL DISTRICT NO. 5
POTTAWATOMIE COUNTY, OKLAHOMA
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

PRIOR YEAR'S COMMENTS AND RECOMMENDATIONS

The prior year's comments have been addressed and resolved.

CURRENT YEAR'S COMMENTS AND RECOMMENDATIONS

Our review of the purchase orders indicated that in almost every instance the purchase orders were properly approved and supported with adequate documentation. However, we noted the following during our review:

<u>Findings</u>	<u>No. of Instances</u>
Invoice Date Before P.O. Date	4
Check Date Before Invoice Date	1
Inaccurate Math	8
Paid From a Vendor's Statement	1
No Non-Kickback Affidavit	1
P.O. Not Available for Review	1

REVIEW OF ACTIVITY FUND TRANSACTIONS

We noted the following problems during our review of Activity Fund transactions:

<u>Findings</u>	<u>No. of Instances</u>
Did Not Sign For Goods/Services	13
Invoice Date Before P.O. Date	4
Incomplete Documentation	6
Paid Sales Tax	1
Inaccurate Math	3

DISTRICT'S RESPONSE TO AUDIT COMMENTS/CORRECTIVE ACTION PLAN

The District is generally in agreement with the finding and recommendations above and will review current procedures in order to implement necessary changes.