

AUDIT REPORT

*Farris School District C-23*

*Atoka County, Oklahoma*

July 1, 2011 to June 30, 2012

Prepared By:

John D. Turrentine CPA, P.C.  
607 East Main Street  
Stigler Oklahoma 74462

**FARRIS SCHOOL DISTRICT NO. C-23**

**ATOKA COUNTY, OKLAHOMA**

**JUNE 30, 2012**

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**Farris School District C-23**  
**School District Officials**  
**June 30, 2012**

**Board of Education**

Russell Clay - President

Keiv Brummett – Clerk

Margaret McAdams – Vice President

**Superintendent of Schools**

Wes Watson

John D. Turrentine  
*Certified Public Accountant, P.C.*  
607 East Main Street  
Stigler Oklahoma 74462

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**Independent Auditor's Report**

The Honorable Board of Education  
Farris School District C-023

I have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Farris School District C-023, Atoka County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Farris School District C-023. My responsibility is to express an opinion on these financial statements based on my audit.

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

As discussed in Note 1, the Farris School District C-023 prepares its financial statements 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 accounting principles generally accepted in the United States of America. The effect on the financial statements resulting from the use of this regulatory basis of accounting and presentation as compared to accounting principles generally accepted in the United States of America cannot be reasonably determined, but is considered material.

In my opinion, because of the school district's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the combined financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Farris School District C-023, as of June 30, 2012, or the revenues collected and expenses paid for the year then ended.

As discussed in Note 1, the financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory presentation prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

However, in my opinion, except for the effects of the omission of the general fixed asset account group, the combined 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 the Farris School District C-023, Atoka County, Oklahoma, as of June 30, 2012, and the revenues collected and expenses paid for the year then ended on the regulatory basis of accounting described in Note 1.

My audit was made for the purpose of forming opinions on the fund type and account group financial statements within the combined financial statement. The combining fund statements and other schedules as listed in the table of contents under other supplementary information are presented for purposes of additional analysis. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the Farris School District. This other supplementary information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements and in my 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.

In accordance with Government Auditing Standards, I have also issued a report dated December 13, 2012 on my considerations of the Farris School District's internal control over financial reporting and my tests of it's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

This report is intended solely for the information and use of the board of education of the Farris School District C-023, Atoka County, Oklahoma, 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. This restriction is not intended to limit the distribution of the report, which is a matter of public record when released.

Sincerely,

John D. Turrentine, CPA P.C.  
December 13, 2012

John D. Turrentine  
*Certified Public Accountant P.C.*  
607 East Main Street  
Stigler Oklahoma 74462

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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

To the Honorable Board of Education  
Farris School District No. C-023  
Farris, Atoka County, Oklahoma

I have audited the accompanying fund type and account group financial statements-regulatory basis within the combined financial statements of the Farris School District C-023, Farris, Oklahoma as of and for the year ended June 30, 2012 and have issued my report thereon dated December 13, 2012, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed assets account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

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

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.

### Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, 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.

Sincerely,  
John D. Turrentine CPA, P.C.  
Stigler Oklahoma  
December 13, 2012

**FARRIS SCHOOL DISTRICT NO. C-23**  
**COMBINED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY**  
**REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS**  
**June 30, 2012**

	<u>Governmental Fund Types</u>				<u>Fiduciary Type</u>	<u>Total (Memorandum Only)</u>	
<u>Assets</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service Fund</u>	<u>General Long Term Debt</u>	<u>Agency</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>
Cash & Cash Equivalents	\$323,361	\$ 70,734	\$ 388	\$ 0	\$ 28,722	\$369,648	\$423,205
Investments	\$ 0	\$ 0	0	0	\$ 0	\$ 0	\$ 0
Total Current Assets	<u>\$323,361</u>	<u>\$ 70,734</u>	<u>\$ 388</u>	<u>\$ 0</u>	<u>\$ 28,722</u>	<u>\$369,648</u>	<u>\$423,205</u>
Amount Available in Debt Service				\$ 0		\$ 11,091	\$ 0
Amount to be Provided	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,959	\$ 0
<b>Total Assets</b>	<u><b>\$323,361</b></u>	<u><b>\$ 70,734</b></u>	<u><b>\$ 388</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 28,722</b></u>	<u><b>\$390,698</b></u>	<u><b>\$423,205</b></u>
<b><u>Liabilities &amp; Fund Balance</u></b>							
Warrants Payable	\$ 42,092	\$ 439	\$ 0	\$ 0	\$ 0	\$ 46,032	\$ 42,531
Due to Student Groups	\$ 0	\$ 0	\$ 0	\$ 0	\$28,722	\$ 23,010	\$ 28,722
Encumbrances	\$ 79,176	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,986	\$ 79,176
Total Current Liabilities	<u>\$ 121,268</u>	<u>\$ 439</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$28,722</u>	<u>\$ 88,028</u>	<u>\$ 150,429</u>
Judgements Payable				\$ 0		\$ 20,000	\$ 0
Interest Payable				\$ 0		\$ 1,050	\$ 0
Capital Leases				\$ 0		\$ 0	\$ 0
Total Long-Term Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,050</u>	<u>\$ 0</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 121,268</b></u>	<u><b>\$ 439</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$28,722</b></u>	<u><b>\$109,078</b></u>	<u><b>\$ 150,429</b></u>
Cash Fund Balance	\$ 202,093	\$ 70,295	\$ 388	\$ 0	\$ 0	\$281,619	\$ 272,776
<b>TOTAL FUND BALANCE</b>	<u><b>\$ 202,093</b></u>	<u><b>\$ 70,295</b></u>	<u><b>\$ 388</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$281,619</b></u>	<u><b>\$ 272,776</b></u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<u><b>\$ 323,361</b></u>	<u><b>\$ 70,734</b></u>	<u><b>\$ 388</b></u>	<u><b>\$ 0</b></u>	<u><b>\$28,722</b></u>	<u><b>\$390,698</b></u>	<u><b>\$ 423,205</b></u>

\*The accompanying notes are an integral part of these financial statements.



**FARRIS SCHOOL DISTRICT NO. C-23**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**- REGULATORY BASIS -ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS**  
**June 30, 2012**

	<u>Governmental Fund Types</u>			<u>Fiduciary</u> <u>Type</u>	<u>Total</u> <u>(Memorandum Only)</u> <u>June 30,</u>	
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Debt</u> <u>Service</u>	<u>Agency</u>	<u>2011</u>	<u>2012</u>
<b>Revenue collected:</b>						
Local Sources	\$ 98,318	\$ 15,607	\$10,871	\$ 5,926	\$162,920	\$130,722
Intermediate Sources	12,583	0	0	0	11,132	12,583
State Sources	490,552	896	0	0	470,125	491,448
Federal Sources	<u>86,445</u>	<u>50,320</u>	<u>0</u>	<u>0</u>	<u>155,138</u>	<u>136,765</u>
<b>TOTAL REVENUES</b>	<u>\$687,899</u>	<u>\$ 66,823</u>	<u>\$10,871</u>	<u>\$ 5,926</u>	<u>\$799,315</u>	<u>\$771,519</u>
<b><u>Expenditures Paid:</u></b>						
Instruction	\$402,935	\$ 0	\$ 0	\$ 0	\$432,443	\$402,935
Support Services	287,904	2,709	0	0	185,430	290,613
Non-instruction Services	7,550	51,234	0	0	93,722	58,784
Capital Outlay	0	0	0	0	0	0
Other Outlays	<u>\$ 529</u>	<u>\$ 0</u>	<u>21,575</u>	<u>\$ 214</u>	<u>\$ 11,803</u>	<u>\$ 22,318</u>
<b>TOTAL EXPENDITURES</b>	<u>\$698,919</u>	<u>\$ 53,943</u>	<u>\$ 21,575</u>	<u>\$ 214</u>	<u>\$723,398</u>	<u>\$774,650</u>
Excess of Revenues collected over (under) expenses paid	\$ (11,020)	\$ 12,880	\$(10,704)	\$ 5,712	\$ 75,917	\$ (3,131)
Adjust. to Prior Year Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 329	\$ 0
Cash Fund Balance, Beginning of Year	<u>\$213,113</u>	<u>\$ 57,415</u>	<u>\$ 11,091</u>	<u>\$ 23,010</u>	<u>\$228,383</u>	<u>\$304,629</u>
Cash Fund Balance, End of Year	<u>\$202,093</u>	<u>\$ 70,295</u>	<u>\$ 388</u>	<u>\$ 28,722</u>	<u>\$304,629</u>	<u>\$301,498</u>

**\*The accompanying notes are an integral part of these financial statements.**

## FARRIS SCHOOL DISTRICT NO. C-23

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**- BUDGET AND ACTUAL - REGULATORY BASIS - BUDGETED GOVERNMENTAL FUND TYPES**  
**June 30, 2012**

	GENERAL FUND			SPECIAL REVENUE FUND		
	Original	Final		Original	Final	
<b><u>Revenues Collected</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>
Local Sources	\$ 30,000	\$ 30,000	\$ 98,318	\$ 3,002	\$ 3,002	\$ 15,607
Intermediate Sources	10,019	10,019	12,583	0	0	0
State Sources	491,312	491,312	490,552	845	845	896
Federal Sources	<u>96,572</u>	<u>\$ 96,572</u>	<u>86,445</u>	<u>57,855</u>	<u>57,855</u>	<u>50,320</u>
Total Revenues	<u>\$ 627,903</u>	<u>\$ 627,903</u>	<u>\$687,899</u>	<u>\$ 61,702</u>	<u>\$ 61,702</u>	<u>\$ 66,823</u>
<b><u>Expenditures Paid</u></b>						
Instruction	\$ 633,382	\$ 633,382	\$402,935	\$ 77,795	\$ 77,795	\$ 0
Support Services	287,904	287,904	287,904	2,709	2,709	2,709
Non-instruction Services	7,550	7,550	7,550	51,234	51,234	51,234
Facilities Acquisition	0	0	0	0	0	0
Other Outlays	<u>529</u>	<u>529</u>	<u>529</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 929,366</u>	<u>\$ 929,366</u>	<u>\$698,919</u>	<u>\$131,738</u>	<u>\$131,738</u>	<u>\$ 53,943</u>
Excess of Revenues Collected Over (Under) Expenses Paid						
Before Adjustments to Prior Year Encumbrances			<u>\$ (11,020)</u>			<u>\$ 12,880</u>
Adjustments to prior year encumbrances			<u>\$ 0</u>			<u>\$ 0</u>
Other Financing Sources:						
Total Other Financing Sources			<u>\$ 0</u>			<u>\$ 0</u>
Excess of Revenues Collected Over (Under)						
Expenses Paid and Other Financing Sources			<u>\$ (11,020)</u>			<u>\$ 12,880</u>
Cash Fund Balance, beginning of year			\$ 213,113			\$ 57,415
Cash Fund Balance, end of year			<u>\$ 202,093</u>			<u>\$ 70,295</u>

\*The accompanying notes are an integral part of these statements.

**FARRIS SCHOOL DISTRICT NO. C-23**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**- BUDGET AND ACTUAL - REGULATORY BASIS - BUDGETED GOVERNMENTAL FUND TYPES**  
**June 30, 2012**

	<b><u>Sinking Fund</u></b>		
	Original	Final	
<b><u>Revenues Collected</u></b>	<b><u>Budget</u></b>	<b><u>Budget</u></b>	<b><u>Actual</u></b>
Local Sources	\$ 10,996	\$ 10,996	\$ 10,871
Intermediate Sources	0	0	0
State Sources	0	0	0
Federal Sources	0	0	0
Other Sources	0	0	0
Total Revenues	<u>\$ 10,996</u>	<u>\$ 10,996</u>	<u>\$10,871</u>
<b><u>Expenditures Paid</u></b>			
Instruction	\$ 0	\$ 0	\$ 0
Support Services	0	0	0
Non-instruction Services	0	0	0
Other Outlays	21,575	21,575	21,575
Facility acquisition	0	0	0
Total Expenditures	<u>\$ 21,575</u>	<u>\$ 21,575</u>	<u>\$ 21,575</u>
Excess of revenues collected over (under) expenses paid before adjustments to prior year encumbrances			\$ (10,704)
Adjustments to prior year encumbrances			\$ 0
Other financing sources (uses):			
Bond sale proceeds			\$ 0
Operating Transfers In			0
Operating Transfers Out			0
Total other financing sources (uses)			<u>\$ 0</u>
Excess (deficiency) of revenue collected over expenditures paid and other financing sources (uses)			\$(10,704)
Cash fund Balance, beginning of year			<u>\$ 11,091</u>
Cash fund Balance, end of year			<u>\$ 388</u>

\*The accompanying notes are an integral part of these statements.

**FARRIS SCHOOL DISTRICT NO. C-23  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

The financial statements of the Farris Public Schools District No. C-23 (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by 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 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 is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity. The School Education Foundation is not included in the reporting entity. The District does not appoint any of the board members or exercise any oversight authority over the Foundation.

B. Fund Accounting

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

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

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 services funds).

General Fund - The general fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program. Expenditures include all costs associated with the daily operations of the schools except for programs funded for buildings 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 investment income and property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture & equipment. The Child Nutrition Fund is also considered a special revenue fund with funds coming from state aid, Department of Agriculture funds, and from student fees and is used for purchasing food, supplies, certain authorized equipment, and salaries.

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 facilities, renovating existing facilities, and acquiring transportation equipment.

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

### **Proprietary Fund Types**

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds).

### **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 formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

Agency Fund - The Agency 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. 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 currently does not maintain this account group.

### **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.

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

### **C. Basis of Accounting**

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 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.

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

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

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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 Commercial Bank Certificate of Deposit and 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 purchases is issued a deed to the property.

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

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group is not presented.

Compensated Absences - 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. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group since none of the vested sick leave is expected to be liquidated with expendable available financial resources.



## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

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 district 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 years 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 and require that the money not be 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 expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

### **G. Statement of Cash Flows**

The District has not presented a statement of cash flows in the fiscal 2012 financial statements.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

### 2. Cash and Investments

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, 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.

In accordance with state statutes, the District's investment policy is to comply with these requirements. As of June 30, 2012, the district has no investments.

Deposits and Investments - The District's cash deposits and investments at June 30, 2012 of \$423,205 were completely insured or collateralized by federal deposit insurance, direct obligations of the U.S. Government, or securities held by the district or by its agent in the district's name.

### 3. General Long-Term Debt

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. General long-term debt of the District consists of Capital Leases and Judgements payable. The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2012:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deduction</u>	Balance <u>June,30 2012</u>
Judgements	\$ 20,000	\$ 0	\$ 20,000	\$ 0
Capital Lease Obligations	\$ 0	\$ 0	\$ 0	\$ 0
<u>Total</u>	<u>\$ 20,000</u>	<u>\$ 0</u>	<u>\$ 20,000</u>	<u>\$ 0</u>

The district was involved in a lawsuit involving claims for breach of contract, violation of constitutional rights to due process, retaliation for free speech on matters of public concern, tortuous interference with contractual relations, and bad faith brought by a former employee, Bonnie Phillips. A settlement was reached between the District and Bonnie Phillips on March 9, 2009. Pursuant to the terms of the settlement, Bonnie Phillips was awarded a judgement in the amount of \$30,000 payable over 3 years at an interest rate of 5.25%.

### Employee Retirement System

The District participates in the state-administered Oklahoma Teacher's Retirement System (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). Under the System, contributions are made by the District, the State of Oklahoma, and the participating employees. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The District has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirement.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

The System issues an independent financial report, financial statements, and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, Post Office Box 53524, Oklahoma City, OK 73152 or by calling 405-521-2387.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. 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 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 actuarial determined, and its employees are established by Statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.0% beginning January 1, 2009 and 9.5% beginning January 1, 2011 and thereafter. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7% of regular annual compensation.

The District's total required and actual contributions to the System for the years ending June 30, 2010, 2011, and 2012 were \$67,800, \$70,520, and \$64,276 respectively.

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 unfunded actuarial accrued liability of the System, as determined as part on the latest actuarial valuation dated June 30, 2011, is as follows:

Total actuarial accrued liability	\$17,560,754,452
Less Actuarial value of assets	<u>9,960,576,151</u>
Unfunded actuarial accrued liability	<u>\$ 7,600,178,301</u>

The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

## **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012**

Ten year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2012. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

5. Contingencies

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

6. Risk Management

The District is exposed to various risks to loss. The District purchases commercial insurance to manage these various risks. 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.

7. Ability to Continue/Going Concern Issues

The district is experiencing a rapid decrease in student enrollment which will lead to deteriorating financial conditions during the next few years. During the year ended June 30, 2013, the district engaged in consolidation discussions with other area school districts. Management believes it has sufficient cash reserves for the district to continue operating through the fiscal year ending June 30, 2014. Unless student numbers increase substantially, doubt exists that the district would be financially viable beyond the 2013/2014 school year. Also, consolidation with another district appears a very real possibility in the very near future.

**FARRIS SCHOOL DISTRICT NO. C-23**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES -**  
**REGULATORY BASIS -**  
**ALL SPECIAL REVENUE FUNDS**  
**June 30, 2012**

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 63,169	\$ 7,566	\$ 70,734
<b>Investments</b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>
<b>Total Assets</b>	<b><u>\$ 63,169</u></b>	<b><u>\$ 7,566</u></b>	<b><u>\$ 70,734</u></b>
<b>LIABILITIES AND CASH FUND BALANCES</b>			
Liabilities:			
Reserves	\$ 0	\$ 0	\$ 0
Outstanding warrants	<u>\$ 0</u>	<u>\$ 439</u>	<u>\$ 439</u>
Total Liabilities	<u>\$ 0</u>	<u>\$ 439</u>	<u>\$ 439</u>
Cash Fund Balance	<u>\$ 63,169</u>	<u>\$ 7,126</u>	<u>\$ 70,734</u>
Total Liabilities and Cash Fund Balances	<u>\$ 63,169</u>	<u>\$ 7,566</u>	<u>\$ 70,734</u>

\*The accompanying notes are an integral part of these financial statements.

**FARRIS SCHOOL DISTRICT NO. C-23**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -**  
**- REGULATORY BASIS – ALL SPECIAL REVENUE FUNDS**

**June 30, 2012**

	Building Fund			Child Nutrition Fund			Total Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b><u>Revenues Collected</u></b>									
Local Sources	\$ 0	\$ 0	\$ 13,529	\$ 3,002	\$ 3,002	\$ 2,078	\$ 3,002	\$ 3,002	\$ 15,607
Intermediate Sources	0	0	0	0	0	0	0	0	0
State Sources	0	0	0	845	845	896	845	845	896
Federal Sources	0	0	0	57,855	57,855	50,320	57,855	57,855	50,320
Other	0	0	0	0	0	0	0	0	0
Total Revenues	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,529</u>	<u>\$ 61,702</u>	<u>\$ 61,702</u>	<u>\$ 53,294</u>	<u>\$ 61,702</u>	<u>\$ 61,702</u>	<u>\$ 66,823</u>
<b><u>Expenditures Paid</u></b>									
Instruction	\$ 62,261	\$ 62,261	\$ 0	\$ 15,534	\$ 15,534	\$ 0	\$ 77,795	\$ 77,795	\$ 0
Support Services	2,709	2,709	2,709	0	0	0	2,709	2,709	2,709
Non-instruction Services	0	0	0	51,234	51,234	51,234	51,234	51,234	51,234
Facilities Acquisition	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Total Expenditures	<u>\$ 64,970</u>	<u>\$ 64,970</u>	<u>\$ 2,709</u>	<u>\$ 66,768</u>	<u>\$ 66,768</u>	<u>\$ 51,234</u>	<u>\$131,738</u>	<u>\$131,738</u>	<u>\$ 53,943</u>
Excess of Revenues Over (Under) Expenses Paid									
Before Adjustments to Prior Year Encumbrances			\$ 10,820			\$ 2,060			\$ 12,880
Adjustments to prior year encumbrances			\$ 0			\$ 0			\$ 0
Other Financing Sources:									
Total Other Financing Sources			<u>\$ 0</u>			<u>\$ 0</u>			<u>\$ 0</u>
Excess of Revenues Collected Over (Under)									
Expenses Paid and Other Financing Sources			<u>\$ 10,820</u>			<u>\$ 2,060</u>			<u>\$ 12,880</u>
Cash Fund Balance, beginning of year			\$ 52,349			\$ 5,066			\$ 57,415
Cash Fund Balance, end of year			<u>\$ 63,169</u>			<u>\$ 7,126</u>			<u>\$ 70,295</u>

**\*The accompanying notes are an integral part of these statements.**

**FARRIS SCHOOL DISTRICT NO. CO-23**  
**COMBINING STATEMENT OF CHANGES IN CASH BALANCES**  
**REGULATORY BASIS - ACTIVITY FUNDS**  
**June 30, 2012**

<u>ACTIVITIES</u>	<u>Balance</u> <u>July 1, 2011</u>	<u>Revenue</u>	<u>Adjustments</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2012</u>
General Activity	14,543	2,811	0	64	17,290
Athletics	<u>8,467</u>	<u>3,115</u>	<u>0</u>	<u>150</u>	<u>11,432</u>
Total	<u>\$ 23,010</u>	<u>\$ 5,926</u>	<u>\$ 0</u>	<u>\$ 214</u>	<u>\$ 28,722</u>

\*The accompanying notes are an integral part of these statements.

**FARRIS SCHOOL DISTRICT NO. C-023**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - STATUTORY BASIS**  
**For the Year Ended June 30, 2012**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>OCAS Project</b>	<b>Approved Amount</b>	<b>Balance at June 30, 2011</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Cancelled/ Not Req'd</b>	<b>Balance at June 30, 2012</b>
U.S. Department of Education								
Direct Programs:								
Impact Aid	84.041	591	\$ 14,206	\$ (4,920)	\$ 14,206	\$ 26,785	\$ 17,499	\$ 0
Indian Education	84.060	561	\$ 12,447	\$ 3,514	\$ 0	\$ 11,484	\$ 0	\$ ( 7,970)
Title VI REAP	84.358A	588	\$ 11,421	\$ (32,135)	\$ 0	\$ 0	\$ 32,135	\$ 0
Passed Through State Dept of Education:								
Title I	84.010	511	\$ 23,707	\$ (23,328)	\$ 26,203	\$ 23,474	\$ 0	\$ (20,600)
Title II, Part A	84.367	586	\$ 7,880	\$ 1,921	\$ 9,327	\$ 7,880	\$ 0	\$ 3,368
ARRA Ed Jobs Fund	84.410	790	\$ 0	\$ (18,865)	\$ 18,731	\$ 0	\$ 134	\$ 0
IDEA-B flow through	84.027	621	\$ 18,097	\$ (16,947)	\$ 16,839	\$ 18,097	\$ 0	\$ (18,205)
IDEA-B Preschool	84.173	641	\$ 1,150	\$ (1,146)	\$ 1,139	\$ 1,150	\$ 0	\$ (1,157)
ARRA IDEA-B flowthrou	84.391	622	\$ 0	\$ (3,935)	\$ 0	\$ 0	\$ 3,935	\$ 0
TOTAL Dept. of Education			<u>\$ 50,834</u>	<u>\$ (62,300)</u>	<u>\$ 72,239</u>	<u>\$ 50,601</u>	<u>\$ 4,069</u>	<u>\$ (36,594)</u>
U.S. Dept. of Agriculture:								
Passed through the State Dept. of Education:								
USDA Lunch	10.555	763	\$ 34,062	\$ 0	\$ 34,062	\$ 34,062	\$ 0	\$ 0
USDA Breakfast	10.553	764	\$ 16,258	\$ 0	\$ 16,258	\$ 16,258	\$ 0	\$ 0
Passed Through Dept of Human Services:								
Non-Cash Commodities	10.550		\$ 3,741	\$ 0	\$ 3,741	\$ 3,741	\$ 0	\$ 0
<b>TOTALS</b>			<b><u>\$142,969</u></b>	<b><u>\$ (95,842)</u></b>	<b><u>\$140,506</u></b>	<b><u>\$142,931</u></b>	<b><u>\$ 53,703</u></b>	<b><u>\$ (44,564)</u></b>

\*\*The accompanying notes are an integral part of this statement.



FARRIS SCHOOL DISTRICT NO. C-23  
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
FOR THE YEAR ENDED JUNE 30, 2012

**There were no prior year reportable conditions or material instances of non-compliance for the Farris School District.**

**\*The accompanying notes are an integral part of these financial statements.**

**FARRIS SCHOOL DISTRICT NO. C-023**  
**Summary Schedule of Surety Bonds**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<u>Bond Type</u>	<u>Bonding Company</u>	<u>Bond Number</u>	<u>Amount</u>	<u>Expiration Date</u>
Surety/ Superintendent	Western Surety	70919156	\$100,000.00	April 27, 2013
Surety/ Treasurer	Western Surety	70970260	\$100,000.00	July 1, 2012
Surety/All Positions	Western Surety	18131319	\$ 15,000.00	September 20,2013

**\*The accompanying notes are an integral part of these statements.**

