

PAOLI INDEPENDENT SCHOOL DISTRICT NO. 5

GARVIN COUNTY, OKLAHOMA

JUNE 30, 2014

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**PAOLI INDEPENDENT SCHOOL DISTRICT NO. I-5, GARVIN COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Paoli Independent School District #5
Garvin County, Oklahoma

Board Members:

Report on Financial Statements

We have audited the accompanying combined fund type and account group financial statements of the **Paoli Independent School District #5**, Garvin County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the district's regulatory financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Oklahoma State Department of Education. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by **Paoli Independent School District #5** Garvin County, Oklahoma, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of **Paoli Independent School District #5**, Garvin County, Oklahoma, as of June 30, 2014, or the changes in its financial position, for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of **Paoli Independent School District, #5**, Garvin County, Oklahoma as of June 30, 2014, and the revenues collected, expenditures paid/expenses, and budgetary results, for the year ended on the regulatory basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **Paoli Independent School District #5, Garvin County, Oklahoma’s** combined financial statements. The combining financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education* and/or the 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 combined financial statements.

The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the combined financial statements as a whole on the regulatory basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the **Paoli Independent School District, #5, Garvin County, Oklahoma's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering **Paoli Independent School District, #5, Garvin County, Oklahoma's** internal control over financial reporting and compliance.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma

October 31, 2014

COMBINED FINANCIAL STATEMENTS

Paoli School District No.1-005, Garvin County, Oklahoma
Combined Statement of Assets, Liabilities and Fund Balances
Regulatory Basis - All Fund Types and Account Groups
For the Year Ending June 30, 2014

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
ASSETS	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long- Term Debt	June 30, 2014
Cash and Cash Equivalents	\$ 164,607	\$ 40,913	\$ 95,360	\$ 31,680	\$ 45,196	\$ 0	\$ 377,755
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	95,360	95,360
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	144,640	144,640
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	42,270	42,270
Total Assets	\$ 164,607	\$ 40,913	\$ 95,360	\$ 31,680	\$ 45,196	\$ 282,270	\$ 660,025
LIABILITIES AND FUND BALANCE							
Liabilities:							
Warrants Payable	\$ 67,259	\$ 6,064	\$ 0	\$ 1,620	\$ 0	\$ 0	\$ 74,943
Reserve for Encumbrances	0	0	0	0	0	0	0
Due to Activity Groups	0	0	0	0	45,196	0	45,196
General Obligation Bonds Payable	0	0	0	0	0	240,000	240,000
Capitalized Lease Obligations Payable	0	0	0	0	0	42,270	42,270
Total Liabilities	\$ 67,259	\$ 6,064	\$ 0	\$ 1,620	\$ 45,196	\$ 282,270	\$ 402,409
Fund Balances:							
Restricted For:							
Debt Service	\$ 0	\$ 0	\$ 95,360	\$ 0	\$ 0	\$ 0	\$ 95,360
Capital Projects	0	0	0	30,060	0	0	30,060
Building Programs	0	11,898	0	0	0	0	11,898
Child Nutrition Programs	0	17,841	0	0	0	0	17,841
Cooperative Programs	0	5,109	0	0	0	0	5,109
Unassigned	97,348	0	0	0	0	0	97,348
Total Fund Balances	\$ 97,348	\$ 34,848	\$ 95,360	\$ 30,060	\$ 0	\$ 0	\$ 257,616
Total Liabilities and Fund Balances	\$ 164,607	\$ 40,913	\$ 95,360	\$ 31,680	\$ 45,196	\$ 282,270	\$ 660,025

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

Paoli School District No.1-005, Garvin County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ending June 30, 2014

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2014
Revenue Collected:					
Local Sources	\$ 251,013	\$ 55,069	\$ 83,456	\$ 44	\$ 389,582
Intermediate Sources	46,685	0	0	0	46,685
State Sources	1,381,510	48,182	0	0	1,429,692
Federal Sources	191,255	95,158	0	0	286,413
Non-Revenue Receipts	0	5,641	0	0	5,641
<i>Total Revenue Collected</i>	<u>\$ 1,870,464</u>	<u>\$ 204,049</u>	<u>\$ 83,456</u>	<u>\$ 44</u>	<u>\$ 2,158,013</u>
Expenditures Paid:					
Instruction	\$ 1,096,301	\$ 30,891	\$ 0	\$ 8,617	\$ 1,135,809
Support Services	703,966	43,947	0	30,381	778,294
Operation of Non-Instructional Services	959	118,357	0	0	119,316
Facilities Acquisition and Construction	0	0	0	0	0
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	46	0	0	0	46
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	65,000	0	65,000
Interest and Fiscal Agent Fees	0	0	11,020	0	11,020
<i>Total Expenditures Paid</i>	<u>\$ 1,801,273</u>	<u>\$ 193,195</u>	<u>\$ 76,020</u>	<u>\$ 38,998</u>	<u>\$ 2,109,486</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 69,191</u>	<u>\$ 10,854</u>	<u>\$ 7,436</u>	<u>\$ (38,954)</u>	<u>\$ 48,527</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):					
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Bond Proceeds	0	0	0	0	0
Transfers In	0	0	0	0	0
Transfers Out	(2,672)	(9,300)	0	0	(11,972)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (2,672)</u>	<u>\$ (9,300)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (11,972)</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 66,519</u>	<u>\$ 1,554</u>	<u>\$ 7,436</u>	<u>\$ (38,954)</u>	<u>\$ 36,555</u>
<i>Fund Balance - Beginning of Year</i>	<u>30,829</u>	<u>33,294</u>	<u>87,924</u>	<u>69,014</u>	<u>221,061</u>
<i>Fund Balance - End of Year</i>	<u>\$ 97,348</u>	<u>\$ 34,848</u>	<u>\$ 95,360</u>	<u>\$ 30,060</u>	<u>\$ 257,616</u>

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

Paoli School District No.1-005, Garvin County, Oklahoma
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types
For the Year Ending June 30, 2014

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 208,612	\$ 208,612	\$ 251,013	\$ 69,794	\$ 69,794	\$ 55,069	\$ 77,436	\$ 77,436	\$ 83,456
Intermediate Sources	38,800	38,800	46,685	0	0	0	0	0	0
State Sources	1,303,382	1,364,713	1,381,510	17,300	17,300	48,182	0	0	0
Federal Sources	194,280	194,280	191,255	86,400	86,400	95,158	0	0	0
Non-Revenue Receipts	0	0	0	0	0	5,641	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 1,745,074</u>	<u>\$ 1,806,405</u>	<u>\$ 1,870,464</u>	<u>\$ 173,494</u>	<u>\$ 173,494</u>	<u>\$ 204,049</u>	<u>\$ 77,436</u>	<u>\$ 77,436</u>	<u>\$ 83,456</u>
Expenditures Paid:									
Instruction	\$ 1,117,229	\$ 1,178,560	\$ 1,096,301	\$ 31,379	\$ 31,379	\$ 30,891	\$ 0	\$ 0	\$ 0
Support Services	644,570	644,570	703,966	68,103	68,103	43,947	0	0	0
Operation of Non-Instructional Services	0	0	959	108,406	108,406	118,357	0	0	0
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0
Other Outlays	5,903	5,903	0	0	0	0	165,360	165,360	76,020
Other Uses	7,200	7,200	0	0	0	0	0	0	0
Repayments	0	0	46	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 1,774,903</u>	<u>\$ 1,836,234</u>	<u>\$ 1,801,273</u>	<u>\$ 207,888</u>	<u>\$ 207,888</u>	<u>\$ 193,195</u>	<u>\$ 165,360</u>	<u>\$ 165,360</u>	<u>\$ 76,020</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (29,829)</u>	<u>\$ (29,829)</u>	<u>\$ 69,191</u>	<u>\$ (34,394)</u>	<u>\$ (34,394)</u>	<u>\$ 10,854</u>	<u>\$ (87,924)</u>	<u>\$ (87,924)</u>	<u>\$ 7,436</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	1,100	1,100	0	0	0	0
Transfers Out	(1,000)	(1,000)	(2,672)	0	0	(9,300)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	<u>\$ (2,672)</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ (9,300)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (30,829)</u>	<u>\$ (30,829)</u>	<u>\$ 66,519</u>	<u>\$ (33,294)</u>	<u>\$ (33,294)</u>	<u>\$ 1,554</u>	<u>\$ (87,924)</u>	<u>\$ (87,924)</u>	<u>\$ 7,436</u>
<i>Fund Balance - Beginning of Year</i>	<u>30,829</u>	<u>30,829</u>	<u>30,829</u>	<u>33,294</u>	<u>33,294</u>	<u>33,294</u>	<u>87,924</u>	<u>87,924</u>	<u>87,924</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 97,348</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,848</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,360</u>

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

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Paoli Public Schools Independent District No. 5, Garvin 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.

1.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 the State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and /or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity. The District has various supporting groups. However, the District does not appoint any of the board members or exercise any oversight authority over these groups and the dollar amounts are not material to the District.

1.B. Fund Accounting

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

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

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

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, Governmental Fund Types, (continued)

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).

1. General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenues sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program.

Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

2. Special Revenue Funds - The Special Revenue Funds of the District consist of the Building Fund, the Child Nutrition Fund and the cooperative fund.

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.

Child Nutrition Fund - The Child Nutrition Fund consists of monies collected from meals served to students and employees of the district and is expended on food, supplies and salaries to operate the lunchroom. The district also deposits reimbursements received from the National School Lunch and Breakfast programs into this fund.

Cooperative Fund - The cooperative fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. Paoli School was the LEA for the cooperative agreement established by a state grant received for alternative education.

3. 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.

4. Capital Projects Fund - The capital projects fund consists of the District's 2011 Combined Purpose Bond Fund. This fund 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.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, (continued)

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, 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.

1. Agency Funds - 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.

1. General long-term Debt Account Group - This account group is used 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.

2. General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the 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.

1.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 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:

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies, (continued)

1.C. Basis of Accounting and Presentation, (continued)

- 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 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.

1.D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. The board of education requests an initial temporary appropriations budget from the county excise board before June 30. Then no later than October 1, the board of education prepares financial statement and estimate of needs and files it with the applicable county clerk and the State Department of Education. The final budget may be revised upon approval of the board of education and the county excise board.

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.

1.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 records at cost, which approximated 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.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies, (continued)

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

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.

Inventories – The value of consumable inventories at June 30, 2014, is not material to the basic financial statements.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group has not been 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 not been reported in the general long-term debt account group since the amount is not material to the financial statements.

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

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

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

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies, (continued)

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

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

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

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

1.F. Revenue, Expenses, and Expenditures

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

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

The District receives revenue from the state to administer certain categorical education programs. The 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 expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers in/transfers out may not agree because activity fund transactions are not included.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 2 – Deposit and Investment Risk

The District held the following deposits and investments at June 30, 2014:

		<u>Carrying Value</u>
Deposits		
Demand Deposits	\$	379,009
Time Deposits		
Total Deposits	\$	<u>379,009</u>
Investments		
	<u>Credit Rating</u>	<u>Maturity</u>
		<u>Fair Value</u>
		\$ 0
Total Investments	\$	<u>0</u>
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	377,755
Activity Fund Outstanding Checks/Deposit in Transit		<u>1,254</u>
Total Deposits and Investments	\$	<u>379,009</u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

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, 2014, the District was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. 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.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies..
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchase agreements that have underlying collateral including obligations of the United States government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school district debt obligations for which an ad valorem tax may be levied.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 2 – Deposit and Investment Risk, (continued)

6. Money market funds regulated by the SEC and in which investments consist of the investments consist of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school district.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investment by reporting the credit quality ratings of investment in debt securities as determined by nationally recognized statistical rating organizations-rating agencies-as of the year end. 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.

The district had no investment credit risk as of June 30, 2014, as defined above.

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District had no investment interest rate risk as defined above.

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 places no limit on the amount it may invest in any one issuer.

At June 30, 2014, the District had no concentration of credit risk as defined above.

Note 3 - General Long-term Debt

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

General long-term debt of the District consists of bonds payable and capital leases. Debt service requirements for bonds are payable solely from the fund balance and future revenues of the debt service fund.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 3 - General Long-term Debt, (continued)

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2014:

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2013	\$ 305,000	\$ 85,625	\$ -	\$ 390,625
Additions	-	-	-	-
Retirements	(65,000)	(43,355)	-	(108,355)
Balance, June 30, 2014	<u>\$ 240,000</u>	<u>\$ 42,270</u>	<u>\$ -</u>	<u>\$ 282,270</u>

A brief description of the outstanding general obligation bond issues at June 30, 2014 is set forth below:

	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding
2011 Combined Purpose Bonds	1.4 to 1.7%	July 1, 2016	\$ 305,000	\$ 240,000
Totals			<u>\$ 305,000</u>	<u>\$ 240,000</u>

Presented below is a summary of debt service requirements to maturity by years and by each bond issue:

	Principal	Interest	Total
2011 Combined Purpose Bonds			
2014-15	\$ 80,000	\$ 3,100	\$ 83,100
2015-16	80,000	1,940	81,940
2016-17	80,000	680	80,680
Sub Total	<u>240,000</u>	<u>5,720</u>	<u>245,720</u>
Total Bonds	<u>240,000</u>	<u>5,720</u>	<u>245,720</u>

Interest expense on bonds payable incurred during the current year totaled \$11,020.

The District has entered into lease agreements as lessee for financing the acquisition of a Chevy Pickup, copiers, a brush hog, and buses. These lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease terms and they have been recorded at the present value of the future minimum lease payments. All the leases, except the brush hog lease, contain a clause which gives the District the ability to terminate the lease agreements at the end of each fiscal year.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 3 - General Long-term Debt, (continued)

As noted in Note 1 to the financial statements, the District does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the above assets as assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the general long-term debt account group for the above leases. The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	Copiers	Bus	Total
2015	\$ 12,600	\$ 27,368	\$ 39,968
2016	4,200	0	4,200
Total	16,800	\$ 27,368	\$ 44,168
Less: Amount Representing Interest	(595)	(1,303)	(1,898)
Present Value of Future Minimum Lease Payments	16,205	\$ 26,065	\$ 42,270

Note 4 - Employee Retirement System

Plan Description - The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System") which is a cost-sharing multiple-employer defined benefit Public Employee Retirement System (PERS). The administration, benefits, and funding of the System are governed by Article XVII, Section 70 of the Oklahoma Statutes. 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. PERS provides retirement, disability and death benefits to plan members and beneficiaries. 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 requirements.

The System issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Ok 73152 or by calling (405) 521-2387.

Funding Policy - 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 education institutions who work at least 20 hours per week.

The contribution rates for the District and its employees, which are not actuarially determined, are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50% of applicable compensation for the year ended June 30, 2014. 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%.

The District's contributions to the System for the years ending June 30, 2014, 2013, and 2012 were \$114,360, \$120,727, and \$102,109, respectively.

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 4 - Employee Retirement System, (continued)

The compensation for employees covered by the System for the year ended June 30, 2014 was \$1,119,955; the District's total compensation was \$1,254,301. In addition to the District's 9.50% contributions, the District was required to pay into the System 8.25% of compensation arising from federal grants (\$8,899). There were \$54,738 contributions made by employees during the year ended June 30, 2014.

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 nonfunded pension benefit obligation of the System as determined as part of the latest actuarial valuation dated June 30, 2013, is as follows:

Total pension obligation	\$ 18,973,166,739
Net assets available for benefits, at cost	<u>10,861,057,537</u>
 Nonfunded pension benefit obligation	 <u>\$ 8,188,288,209</u>

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

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2013. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they come due.

Note 5 - Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agency. 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.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. The District had the following insurance coverage during the year: Commercial property - \$750,000,000; general liability - \$1,000,000; and educators liability \$1,000,000. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The School also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the school reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of

Paoli ISD No. 5, Garvin County
Notes To The Financial Statements
For The Year Ended June 30, 2014

Note 6 – Risk Management, (continued)

Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to them during the plan year. As a member of OSAG the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the schools losses for the last five year. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use their loss fund in three years its returned to them with no interest.

Note 7 - Use of Estimates

The preparation of financial statements in conformity with the cash basis and budget laws of the Oklahoma State Department of Education requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 8 – Surety Bonds

The treasurer is bonded by Western Surety Company, bond number 18188819 for the penal sum of \$25,000 for the term of August 21, 2013 to August 21, 2014.

The encumbrance clerk/minutes clerk/activity fund custodian is bonded by Mid-Continent Group, bond #0400086 for the penal sum of \$10,000 for the term of June 17, 2013 to June 17, 2014.

The Superintendent is bonded by Mid RLI Insurance Company, bond #LSM0224065 for the penal sum of \$100,000 for the term June 11, 2013 to June 11, 2014.

Note 9 – Budget Amendments

The General Fund budget was amended once during the year by filing a supplemental appropriation form with the county clerk's office. The supplemental appropriation was filed June 2, 2014 for \$61,331. This increased the original General Fund budget from \$1,775,903 to \$1,837,234.

OTHER SUPPLEMENTAL INFORMATION

Paoli School District No.1-005, Garvin County, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balances
Regulatory Basis - All Special Revenue Funds
For the Year Ending June 30, 2014

<u>ASSETS</u>	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Coop Fund</u>	<u>Total June 30, 2014</u>
Cash and Cash Equivalents	\$ 13,589	\$ 22,214	\$ 5,109	\$ 40,913
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 13,589</u>	<u>\$ 22,214</u>	<u>\$ 5,109</u>	<u>\$ 40,913</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants Payable	\$ 1,691	\$ 4,373	\$ 0	\$ 6,064
Reserve for Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u>\$ 1,691</u>	<u>\$ 4,373</u>	<u>\$ 0</u>	<u>\$ 6,064</u>
Fund Balances:				
Restricted	<u>\$ 11,898</u>	<u>\$ 17,841</u>	<u>\$ 5,109</u>	<u>\$ 34,848</u>
<i>Total Fund Balances</i>	<u>\$ 11,898</u>	<u>\$ 17,841</u>	<u>\$ 5,109</u>	<u>\$ 34,848</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 13,589</u>	<u>\$ 22,214</u>	<u>\$ 5,109</u>	<u>\$ 40,913</u>

Paoli School District No.1-005, Garvin County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - Special Revenue Funds
For the Year Ending June 30, 2014

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Cooperative Fund</u>	<u>Total June 30, 2014</u>
Revenue Collected:				
Local Sources	\$ 33,466	\$ 800	\$ 20,803	\$ 55,069
Intermediate Sources	0	0	0	0
State Sources	6,178	12,654	29,350	48,182
Federal Sources	0	95,158	0	95,158
Non-Revenue Receipts	0	5,641	0	5,641
<i>Total Revenue Collected</i>	<u>\$ 39,644</u>	<u>\$ 114,252</u>	<u>\$ 50,153</u>	<u>\$ 204,049</u>
Expenditures Paid:				
Instruction	\$ 0	\$ 0	\$ 30,891	\$ 30,891
Support Services	34,256	0	9,691	43,947
Operation of Non-Instructional Services	0	118,357	0	118,357
Facilities Acquisition and Construction	0	0	0	0
Other Outlays	0	0	0	0
Other Uses	0	0	0	0
Repayments	0	0	0	0
Interest Paid and Bank Charges	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 34,256</u>	<u>\$ 118,357</u>	<u>\$ 40,582</u>	<u>\$ 193,195</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 5,388</u>	<u>\$ (4,105)</u>	<u>\$ 9,571</u>	<u>\$ 10,854</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):				
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0
Transfers Out	0	0	(9,300)	(9,300)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (9,300)</u>	<u>\$ (9,300)</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 5,388</u>	<u>\$ (4,105)</u>	<u>\$ 271</u>	<u>\$ 1,554</u>
<i>Fund Balance - Beginning of Year</i>	<u>6,510</u>	<u>21,946</u>	<u>4,838</u>	<u>33,294</u>
<i>Fund Balance - End of Year</i>	<u>\$ 11,898</u>	<u>\$ 17,841</u>	<u>\$ 5,109</u>	<u>\$ 34,848</u>

Paoli School District No. I-005, Garvin County, Oklahoma
 Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
 Special Revenue Funds - Budget and Actual
 For the Year Ending June 30, 2014

	Building Fund			Cooperative Fund			Child Nutrition Fund			Total		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:												
Local Sources	\$ 29,794	\$ 29,794	\$ 33,466	\$ 40,000	\$ 40,000	\$ 20,803	\$ 0	\$ 0	\$ 800	\$ 69,794	\$ 69,794	\$ 55,069
Intermediate Sources	0	0	0	0	0	0	0	0	0	0	0	0
State Sources	0	0	6,178	7,800	7,800	29,350	9,500	9,500	12,654	17,300	17,300	48,182
Federal Sources	0	0	0	0	0	0	86,400	86,400	95,158	86,400	86,400	95,158
Non-Revenue Receipts	0	0	0	0	0	0	0	0	5,641	0	0	5,641
<i>Total Revenue Collected</i>	<u>\$ 29,794</u>	<u>\$ 29,794</u>	<u>\$ 39,644</u>	<u>\$ 47,800</u>	<u>\$ 47,800</u>	<u>\$ 50,153</u>	<u>\$ 95,900</u>	<u>\$ 95,900</u>	<u>\$ 114,252</u>	<u>\$ 173,494</u>	<u>\$ 173,494</u>	<u>\$ 204,049</u>
Expenditures Paid:												
Instruction	\$ 0	\$ 0	\$ 0	\$ 31,379	\$ 31,379	\$ 30,891	\$ 0	\$ 0	\$ 0	\$ 31,379	\$ 31,379	\$ 30,891
Support Services	36,304	36,304	34,256	21,259	21,259	9,691	10,540	10,540	0	68,103	68,103	43,947
Operation of Non-Instructional Services	0	0	0	0	0	0	108,406	108,406	118,357	108,406	108,406	118,357
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	0	0	0	0	0	0
Other Uses	0	0	0	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 36,304</u>	<u>\$ 36,304</u>	<u>\$ 34,256</u>	<u>\$ 52,638</u>	<u>\$ 52,638</u>	<u>\$ 40,582</u>	<u>\$ 118,946</u>	<u>\$ 118,946</u>	<u>\$ 118,357</u>	<u>\$ 207,888</u>	<u>\$ 207,888</u>	<u>\$ 193,195</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	\$ (6,510)	\$ (6,510)	\$ 5,388	\$ (4,838)	\$ (4,838)	\$ 9,571	\$ (23,046)	\$ (23,046)	\$ (4,105)	\$ (34,394)	\$ (34,394)	\$ 10,854
Adjustments to Prior Year Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Financing Sources (Uses):												
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0	1,100	1,100	0	1,100	1,100	0
Transfers Out	0	0	0	0	0	(9,300)	0	0	0	0	0	(9,300)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ (9,300)</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 1,100</u>	<u>\$ 1,100</u>	<u>\$ (9,300)</u>				
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	\$ (6,510)	\$ (6,510)	\$ 5,388	\$ (4,838)	\$ (4,838)	\$ 271	\$ (21,946)	\$ (21,946)	\$ (4,105)	\$ (33,294)	\$ (33,294)	\$ 1,554
<i>Fund Balance - Beginning of Year</i>	6,510	6,510	6,510	4,838	4,838	4,838	21,946	21,946	21,946	33,294	33,294	33,294
<i>Fund Balance - End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,898</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,109</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 17,841</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,848</u>

Paoli School District No.1-005, Garvin County, Oklahoma
Combining Assets, Liabilities and Fund Equity
Activity Fund - Regulatory Basis
For the Year Ending June 30, 2014

<u>ASSETS</u>	<u>School Activity Fund</u>
Cash	\$ 45,196
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 45,196</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Due To Activity Groups	\$ <u>45,196</u>
<i>Total Liabilities</i>	<u>\$ 45,196</u>
Fund Equity:	
Unreserved/Undesignated	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 45,196</u>

Paoli School District No.1-005, Garvin County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ending June 30, 2014

ACTIVITIES	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Miscellaneous	\$ 30	\$ 344	\$ 310	\$ 65
Athletics	3,603	21,621	17,752	7,472
Class of 2018	0	156	144	12
Class of 2019	0	120	120	0
Journalism	4,742	4,300	2,717	6,324
Petty Cash	0	1,066	1,066	0
FFA	442	33,337	29,711	4,069
J.H. Cheerleaders	253	2,158	1,963	448
Home Economics	3	0	0	3
Elementary	5,392	3,826	4,926	4,292
Concessions	0	10,089	10,089	0
Student Council	1,946	4,116	2,783	3,279
Pep-Club	234	0	0	234
Scale Fund	212	130	184	157
Library	15	54	0	69
Elementary	3,161	2,187	3,622	1,726
Child Nutrition	0	5,575	5,575	0
Poetry Club	53	0	0	53
Med/C/C Reimbursement	0	12,532	12,532	0
High School Cheerleaders	862	3,037	2,783	1,116
Pop Machine	152	106	124	134
Paoli High School	2,418	2,623	3,750	1,290
Art	23	0	0	23
Girls Basketball Fund	1,306	278	368	1,216
Spanish Club	66	0	0	66
Recycle	247	0	0	247
FFA Leadership	2,293	1,442	2,751	984
H.S. Boys Athletics	1,763	2,537	2,667	1,633
Flower Fund	6	0	0	6
Drama Club	134	0	0	134
H.S. Girls Athletics	156	0	0	156
Justin Whitefiled Scholarship	220	0	0	220
C.O. & K.L. Balentine Scholarship	4,375	5,000	4,875	4,500
Class of 2013	129	0	0	129
Class of 2014	984	291	987	288
Class of 2015	810	3,887	3,609	1,087
Class ofo 2016	2	2,334	228	2,108
Class of 2017	0	1,491	862	629
Alumni Brick Project	1,858	560	1,392	1,026
Total Activities	\$ 37,889	\$ 125,196	\$ 117,889	\$ 45,196

PAOLI INDEPENDENT SCHOOL DISTRICT NO. 5, GARVIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA#	Pass-Through Grantor's Project Number	Deferred Revenue (Accounts Receivable) July 1, 2013	Federal Grant Receipts	Federal Grant Expenditures	Deferred Revenue (Accounts Receivable) June 30, 2014	Indirect Cost
U.S. Department of Education							
Direct Programs:							
Indian Education Title VII	84.060A	561	0	16,176	16,183	(7)	0
Small Rural School Achievement	84.358A	588	0	15,112	15,112	0	112
Passed Through Oklahoma State Department of Education:							
Title I, Basic	84.010	511	0	74,168	74,168	0	2,023
Title I Cluster			0	74,168	74,168	0	2,023
IDEA-B Flowthrough	84.027	621		56,792	56,792	(0)	0
IDEA-B Preschool	84.173	641	0	586	586	(0)	0
Special Education Cluster			0	57,378	57,378	(0)	0
Title II, Part A (84.367	541	(4,852)	26,458	21,607	0	598
Passed Through Oklahoma Department of Vocational Education							
Carl Perkins	84.048	421	0	1,962	1,962	0	0
Total U.S. Department of Education			(4,852)	191,254	186,410	(7)	2,733
U.S. Department of Agriculture							
Passed Through State Department of Education:							
Breakfast Program	10.553	764	0	34,080	34,080	(0)	0
Lunch Program	10.555	763	0	61,078	61,078	0	0
Commodities Distributed-Lunch (Note 2)	10.555	385		8,414	8,414	0	0
Child Nutrition Cluster			0	103,572	103,572	0	0
Total U.S. Department of Agriculture			0	103,572	103,572	0	0
TOTAL FEDERAL ASSISTANCE			(4,852)	294,826	289,982	(7)	2,733

Note 1 - The Schedule of Federal Awards expended was prepared using the same accounting policies used in preparing the District's financial statements. The District's policy is to recognize expenditures when encumbered (contracted for) rather than at the time the related fund liability is incurred.

Note 2 - Commodities received were of a nonmonetary nature and therefore the total revenue per the SEFA does not agree to the total revenue per the OCAS information by the amount of the commodities.



CERTIFIED PUBLIC ACCOUNTANTS

**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**

The Honorable Board of Education
Paoli Independent School District #005
Garvin County, Oklahoma

Board Members:

We have audited, 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, the fund type and account group financial statements, regulatory basis, of **Paoli Independent School District #005**, Garvin County, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's combined financial statements and have issued our report thereon dated October 31, 2014. The report on these financial statements was adverse because the District has elected to prepare its financial statements on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to the omission of the general fixed asset account group.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Paoli Independent School District #005**, Garvin County, Oklahoma's (The District's), internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The District's internal control. Accordingly, we do not express an opinion on the effectiveness of The District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

2014-1 Finding

Statement of Condition – The school activity fund was not reconciled at year end and the school is carrying outstanding checks as far back as 2002. Interest earned on 6-30 was not recorded into the computer. Additionally, a fiscal year 2015 check was listed as outstanding in the 2014 year.

Criteria– Activity Fund needs to be reconciled monthly and outstanding checks over 1 year should be estopped.

Cause/Effect of Condition –School is carrying outstanding checks from an old computer system and they have not yet estopped them. The school has more funds available for use than they are showing on the books because of these outstanding checks. These items cause the activity fund amounts to be misstated on the schools records.

Recommendation –The school needs to check with the software vender to see the best way to handle getting the old outstanding checks back into the subaccounts. Also, the activity fund should be reconciled monthly.

2014-2 Finding

Statement of Condition – The school exceeded the \$75 for a single petty cash expenditure on 1 occasion and exceeded the \$200 maximum balance for the petty cash account on 9 occasions during the year.

Criteria – State statutes prohibit single petty cash expenditures in excess \$75 and the petty cash balance cannot exceed \$200 at any time during the year.

Cause/Effect of Condition – The school was not aware of this statute and were transferring \$100 each month into petty cash regardless of what was spent. They also used the yearend balance of \$154 to buy postage instead of transferring it back into the general fund, which is why they went over the \$75 limit for expenditures.

Recommendation – Reimbursements to petty cash should only be for amounts spent and no single expenditure should exceed \$75.

2014-3 Finding

Statement of Condition – Fundraiser testing for the Class of 2017 showed \$721 in receipts were issued to students for T-shirt sales. Actual collections were \$1,213. Therefore, receipts could not be found to document the \$492 difference.

Criteria – State statutes require prenumbered receipts to be written whenever possible.

Cause/Effect of Condition – Sponsor was not aware of the requirement to issue receipts. There is no way to determine if all monies are accounted for and turned in for deposit.

Recommendation – We recommend all sponsors be made aware of requirements to issue receipts and that this is enforced by management.

2014-4 Finding

Statement of Condition – During our purchase order testing we noted 11 lacked a requisition signed by the purchasing officer, 10 lacked the initials of the person receiving the goods or services and 2 purchase orders were dated after the invoice date.

Criteria – Purchasing policies require the signature and the date of purchasing officer approval prior to items being ordered. The employee receiving the goods or services should initial verifying all items were received and were in good order.

Cause/Effect of Condition – It appears purchasing procedures were not being followed for these purchases. It is possible for items to be purchased and paid without authorization.

Recommendation – The school needs to follow purchasing policies to ensure all requisitions/purchase orders are signed and dated prior to ordering and all items are verified when received prior to payment.

2014-5 Finding

Statement of Condition – 1 of 7 payroll contracts tested did not agree to the total amount paid to the employee. One employee was paid \$251 less than the amount of the approved contract.

Criteria – Each employee should be paid according to the approved payroll contract.

Cause/Effect of Condition – Payroll contracts were not checked against the total paid at year end and therefore the employee was underpaid.

Recommendation – Payroll contracts should be compared to total paid at year end prior to closing out. If there is a discrepancy in the amount paid then it can be corrected prior to closing the books for the year.

Compliance and Other Matters

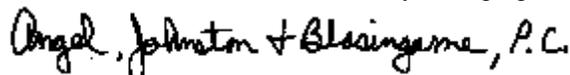
As part of obtaining reasonable assurance about whether The District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

Paoli Independent School District #005, Oklahoma's, Response to Findings

Paoli Independent School District #005, Oklahoma's responses to the findings identified in our audit are described in the attached corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chickasha, Oklahoma
October 31, 2014

OTHER INFORMATION

Paoli ISD No. 5, Garvin County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2014

STATE OF OKLAHOMA)
)ss
COUNTY OF GRADY)

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with *Paoli Schools* for the audit year 2013-2014.

ANGEL, JOHNSTON, & BLASINGAME, P.C.



by _____

Subscribed and sworn to before me this _____ day of _____, 2014

Notary Public

My Commission Expires 07-01-18

Paoli ISD No. 5, Garvin County
Disposition of Prior Year Audit Findings
Year Ended June 30, 2014

2013-1 Finding

Statement of Condition- We noted an employee that was overpaid for approximately \$262 for the month of July. The employee was paid as if she worked she had worked 8 hours each day, but time sheets show her working less than 8 hours each day.

Criteria – Time sheets should be filled out by all non-exempt employees and payment should be made based on actual hours worked.

Cause/Effect of Condition – The employee was not paid from the time sheet documentation, but paid as if worked 8 hours each day of the month. This caused the employee to be paid for more hours than she worked.

Recommendation – We recommend non-exempt employees be paid for the actual hours worked documented by time sheets, signed by the supervisor and the employee.

Current Status – This was not noted during the 2013-14 year.

2013-2 Finding

Statement of Condition- A retired employee had a contract with the school for \$13,750. The amount the employee was actually paid was \$15,000.

Criteria - Employees should not be paid more than the amount on the contract approved by the board of education.

Cause/Effect of Condition – This apparently had something to do with the way teacher retirement told the payroll clerk to pay this, but the contract was not modified for the change in amount she was paid.

Recommendation - We recommend the payroll clerk check the amount paid to amount of the contracts prior to closing out the year, so adjustments can be made, if necessary, and approved by the board of education. We recommend the school ask for a refund from the employee for the overpayment.

Current Status - The contract was correct for the 2013-14 year.

2013-3 Finding

Statement of Condition- We noted the activity fund 6-30-13 year end reconciliation did not agree to the year to date activity account balances at June 30, 2013.

Criteria – The reconciliation should agree to computer generated year to date activity account balance.

Cause/Effect of Condition – It appears the person reconciling the activity fund bank statement did not perform the reconciliation until late July. The software automatically pulled in the current months deposit and checks, so it does not reconcile to the 6-30-13.

Recommendation – We recommend the school contact the software company to see how to handle this situation, since we have other school's that use this software and don't have this problem. A more timely reconciliation would help, but if the computer generated reconciliation doesn't agree to the school's ending balance, an explanation should be documented as to what the differences are.

Current Status - This was not corrected as of 6-30-14.

2013-4 Finding

Statement of Condition- As noted in the prior year audit findings, we noted 7 of 17 activity fund expenditures tested had invoices that were dated prior to the purchase order date. Although the activity fund custodian stated that requisitions were approved prior to ordering, they did not retain those for documentation.

Criteria- Oklahoma State Statutes require requisitions or purchase orders be approved prior to sponsors purchasing or ordering goods or services.

Cause/Effect of Condition - Sponsors are getting requisitions approved prior to ordering goods or services. The documentation is just not being kept.

Recommendation - We recommend the requisition be attached to the original invoice and purchase order.

Current Status – Employees were following the procedures much better during the 2013-14 year.

2013-5 Finding

Statement of Condition- During activity fund testing, we noted 7 of 17 invoices did not have a signature to indicate satisfactory receipt of goods/services.

Criteria – There should be a signature of the person receiving the goods or services to verify that the goods or services have been received in good condition.

Cause/Effect of Condition - This was an oversight, but it could allow goods or services that are not received to be paid for.

Recommendation – We recommend someone verify the receipt of goods/services and sign off before payment is issued.

Current Status - This was corrected during the 2013-14 year.

SCHOOL'S CORRECTIVE ACTION PLAN

**PAOLI PUBLIC SCHOOLS
GARVIN COUNTY**

**AUDIT FINDINGS
CORRECTIVE ACTION PLAN**

AUDIT YEAR: 2013-2014

November 3, 2014

**To: Angel, Johnston and Blasingame, PC, Inc.
Chickasaha, Oklahoma**

From: Rick Worden, Superintendent

AUDIT FINDING REFERENCE NUMBER: 2014-1

DESCRIPTION OF FINDING:

Activity Fund not reconciled at the end of the year..

CONTACT PERSON: Rick Worden

STEPS IMPLEMENTED: The school will check with the software vendor to see the best way to handle getting the old outstanding checks back into the sub accounts. The activity fund will be reconciled monthly..

COMPLETION DATE: November 2014.

AUDIT FINDING REFERENCE NUMBER: 2014-2

DESCRIPTION OF FINDING:

School exceeded the \$ 75.00 for a single petty cash expenditure on 1 occasion and the \$ 200.00 maximum balance for the petty cash account on 9 occasions during the year.

CONTACT PERSON: Rick Worden

STEPS IMPLEMENTED:

The District will reimburse to petty cash only for the amounts spent and single expenditure should exceed \$75.00.

COMPLETION DATE: Starting November 2014

AUDIT FINDING REFERENCE NUMBER: 2014-3**DESCRIPTION OF FINDING:**

Class of 2017 deposited more money than was receipted.

CONTACT PERSON: Rick Worden

STEPS IMPLEMENTED:

The District will continue its efforts to reinforce to staff the importance of issuing receipts. A memo will be sent to staff by end of the day, November 7, 2014.

COMPLETION DATE: November 7, 2014

AUDIT FINDING REFERENCE NUMBER: 2014-4**DESCRIPTION OF FINDING:**

Lack of requisitions signed by the purchasing officer and lack of initials of the person receiving the goods or services, only 2 purchase orders were dated after the invoice date.

CONTACT PERSON: Rick Worden

STEPS IMPLEMENTED:

The District will continue in its efforts to follow purchasing policies to ensure all requisitions/purchase orders are signed and dated prior to ordering and that all items are verified when received prior to payment of goods. A memo will be sent to all staff by the end of the day, November 7, 2014.

COMPLETION DATE: November 7, 2014

AUDIT FINDING REFERENCE NUMBER: 2014-5**DESCRIPTION OF FINDING:**

1 of 7 payroll contracts tested did not agree to the total amount paid to the employee. One employee was paid \$ 251.00 less than the amount of the approved contract.

CONTRACT PERSON: Rick Worden

STEPS IMPLEMENTED:

The District will compare payroll contracts to total paid at the end of the year prior to closing out. Discrepancies can be corrected prior to closing the books for the year.

COMPLETION DATE: Starting with the 2014-2015 school year.

The staff at Paoli Public Schools would like to thank the staff of AJ&B for their thoroughness of auditing our books.