

**PAOLI INDEPENDENT SCHOOL DISTRICT NO. 5**

GARVIN COUNTY, OKLAHOMA

JUNE 30, 2011

**TABLE OF CONTENTS**

<u>SCHOOL DISTRICT OFFICIALS</u>	<b>Page</b> 1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2
<u>COMBINED FINANCIAL STATEMENTS</u>	
Combined Statement of Assets, Liabilities and Equity - Regulatory Basis - All Fund Types and Account Groups	4
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances - Regulatory Basis - All Governmental Fund Types	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types	6
Notes to Combined Financial Statements	7
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
<u>Combining Financial Statements</u>	
Combining Statement of Assets, Liabilities and Fund Balances - Regulatory Basis - All Special Revenue Funds	Exhibit A-1
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances-Regulatory Basis-All Special Revenue Funds	Exhibit A-2
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-Regulatory Basis-Budgeted Governmental Fund Types	Exhibit A-3
Combining Assets, Liabilities and Fund Equity - Activity Fund - Regulatory Basis	Exhibit A-4
Combining Statement of Changes in Assets and Liabilities - Regulatory Basis - Activity Fund	Exhibit A-5
<u>Supporting Schedule(s)</u>	
Schedule of Federal Awards Expended	Exhibit B-1
<u>INTERNAL CONTROL AND COMPLIANCE REPORTS</u>	
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards	Exhibit C-1
<u>OTHER INFORMATION</u>	
Schedule of Accountants' Professional Liability Insurance	Exhibit D-1
Summary Schedule of Prior Year Audit Findings	Exhibit E-1

**PAOLI INDEPENDENT SCHOOL DISTRICT NO. I-5, GARVIN COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011**

**BOARD OF EDUCATION**

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**SCHOOL DISTRICT TREASURER**

John Pratt

## INDEPENDENT AUDITOR'S REPORT

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

### Board Members:

We have audited the accompanying fund type and account group financial statements, including budget and actual, of the **Paoli Independent School District #5**, Garvin County, Oklahoma, which collectively comprise the district's regulatory financial statements as of and for the year ended June 30, 2011, as listed in the table of contents as combined financial statements,. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described more fully in Note 1, **Paoli Independent School District #5**, Garvin County, has prepared these financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America although not reasonably determinable are presumed to be material.

In addition, the District has not maintained the cost of fixed assets purchased in previous years and thus does not know the amount that should be recorded in the General Fixed Asset Account Group. Therefore, the General Fixed Asset Account Group has not been presented. This information is required under the regulatory presentation prescribed by the Oklahoma State Department of Education.

In our opinion, because of the effects of the matters discussed in the third paragraph, the 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 **Paoli Independent School District #5**, Garvin County, Oklahoma, as of June 30, 2011, or the changes in its financial position, for the year then ended.

In our opinion, except for the omission of the General Fixed Asset Account Group results in an incomplete presentation as explained in the fourth 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 School District, No 5**, Garvin County, Oklahoma as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and budgetary results, for the year ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District as a whole. The combining fund statements and other schedules 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education* and is also not a required part of the combined financial statements of **Paoli Independent School District #5**, Garvin County, Oklahoma. The combining fund 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole on the regulatory basis of accounting described in Note 1.

*Angel, Johnston & Blessingame, P.C.*

Chickasha, Oklahoma  
November 28, 2011

COMBINED FINANCIAL STATEMENTS

**Paoli School District No.1-005, Garvin County, Oklahoma**  
**Combined Statement of Assets, Liabilities and Equity**  
**Regulatory Basis - All Fund Types and Account Groups**  
**For the Year Ending June 30, 2011**

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long- Term Debt	June 30, 2011
<b><u>ASSETS</u></b>							
Cash and Cash Equivalents	\$ 229,568	\$ 44,352	\$ 25,585	\$ 782	\$ 43,844	\$ 0	\$ 344,131
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	25,585	25,585
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	74,415	74,415
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	85,676	85,676
<i>Total Assets</i>	<u>\$ 229,568</u>	<u>\$ 44,352</u>	<u>\$ 25,585</u>	<u>\$ 782</u>	<u>\$ 43,844</u>	<u>\$ 185,676</u>	<u>\$ 529,807</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>							
Liabilities:							
Warrants Payable	\$ 126,227	\$ 4,112	\$ 0	\$ 0	\$ 0	\$ 0	\$ 130,339
Reserve for Encumbrances	0	0	0	0	0	0	0
Due to Activity Groups	0	0	0	0	43,844	0	43,844
General Obligation Bonds Payable	0	0	0	0	0	100,000	100,000
Capitalized Lease Obligations Payable	0	0	0	0	0	85,676	85,676
<i>Total Liabilities</i>	<u>\$ 126,227</u>	<u>\$ 4,112</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 43,844</u>	<u>\$ 185,676</u>	<u>\$ 359,859</u>
Fund Equity:							
Reserved for Debt Service	\$ 0	\$ 0	\$ 25,585	\$ 0	\$ 0	\$ 0	\$ 25,585
Reserved for Capital Projects	0	0	0	782	0	0	782
Cash Fund Balance	103,340	40,241	0	0	0	0	143,581
<i>Total Fund Equity</i>	<u>\$ 103,340</u>	<u>\$ 40,241</u>	<u>\$ 25,585</u>	<u>\$ 782</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 169,948</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 229,568</u>	<u>\$ 44,352</u>	<u>\$ 25,585</u>	<u>\$ 782</u>	<u>\$ 43,844</u>	<u>\$ 185,676</u>	<u>\$ 529,807</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 Collected, Expenditures Paid and Changes in Fund Balances**  
**Regulatory Basis - All Governmental Fund Types**  
**For the Year Ending June 30, 2011**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2011
<b>Revenue Collected:</b>					
Local Sources	\$ 250,521	\$ 45,484	\$ 86,966	\$ 38	\$ 383,009
Intermediate Sources	36,967	0	0	0	36,967
State Sources	1,351,224	52,410	0	0	1,403,634
Federal Sources	360,271	102,651	0	0	462,922
Non-Revenue Receipts	0	9,832	0	0	9,832
<i>Total Revenue Collected</i>	<u>\$ 1,998,983</u>	<u>\$ 210,377</u>	<u>\$ 86,966</u>	<u>\$ 38</u>	<u>\$ 2,296,363</u>
<b>Expenditures Paid:</b>					
Instruction	\$ 1,194,068	\$ 30,891	\$ 0	\$ 0	\$ 1,224,959
Support Services	736,988	61,272	0	34,624	832,884
Operation of Non-Instructional Services	154	109,147	0	0	109,302
Facilities Acquisition and Construction	0	0	0	0	0
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	100,000	0	100,000
Interest and Fiscal Agent Fees	0	0	7,450	0	7,450
<i>Total Expenditures Paid</i>	<u>\$ 1,931,211</u>	<u>\$ 201,310</u>	<u>\$ 107,450</u>	<u>\$ 34,624</u>	<u>\$ 2,274,595</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 67,772</u>	<u>\$ 9,067</u>	<u>\$ (20,484)</u>	<u>\$ (34,586)</u>	<u>\$ 21,768</u>
<b>Adjustments to Prior Year Encumbrances</b>	<u>\$ (4,501)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (4,501)</u>
<b>Other Financing Sources (Uses):</b>					
Estopped Warrants	\$ 277	\$ 0	\$ 0	\$ 0	\$ 277
Bond Proceeds	0	0	0	0	0
Transfers In	0	0	0	0	0
Transfers Out	(3,000)	0	0	0	(3,000)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (2,723)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,723)</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 60,548</u>	<u>\$ 9,067</u>	<u>\$ (20,484)</u>	<u>\$ (34,586)</u>	<u>\$ 14,544</u>
<i>Fund Balance - Beginning of Year</i>	<u>42,793</u>	<u>31,174</u>	<u>46,070</u>	<u>35,368</u>	<u>155,404</u>
<i>Fund Balance - End of Year</i>	<u>\$ 103,340</u>	<u>\$ 40,241</u>	<u>\$ 25,585</u>	<u>\$ 782</u>	<u>\$ 169,948</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, 2011**

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b>Revenue Collected:</b>									
Local Sources	\$ 191,763	\$ 191,763	\$ 250,521	\$ 54,421	\$ 54,421	\$ 45,484	\$ 82,005	\$ 82,005	\$ 86,966
Intermediate Sources	38,400	38,400	36,967	0	0	0	0	0	0
State Sources	1,318,122	1,347,418	1,351,224	46,358	46,358	52,410	0	0	0
Federal Sources	314,378	368,583	360,271	83,000	83,000	102,651	0	0	0
Non-Revenue Receipts	0	0	0	0	0	9,832	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 1,862,663</u>	<u>\$ 1,946,164</u>	<u>\$ 1,998,983</u>	<u>\$ 183,779</u>	<u>\$ 183,779</u>	<u>\$ 210,377</u>	<u>\$ 82,005</u>	<u>\$ 82,005</u>	<u>\$ 86,966</u>
<b>Expenditures Paid:</b>									
Instruction	\$ 1,200,044	\$ 1,283,545	\$ 1,194,068	\$ 31,478	\$ 31,478	\$ 30,891	\$ 0	\$ 0	\$ 0
Support Services	688,960	688,960	736,988	62,888	62,888	61,272	0	0	0
Operation of Non-Instructional Services	0	0	154	120,587	120,587	109,147	0	0	0
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0
Other Outlays	13,452	13,452	0	0	0	0	128,075	128,075	107,450
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	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>\$ 1,902,455</u>	<u>\$ 1,985,956</u>	<u>\$ 1,931,211</u>	<u>\$ 214,953</u>	<u>\$ 214,953</u>	<u>\$ 201,310</u>	<u>\$ 128,075</u>	<u>\$ 128,075</u>	<u>\$ 107,450</u>
<i>Excess of Revenues Collected Over (Under)</i>									
<i>Expenditures Paid Before Adjustments to</i>									
<i>Prior Year Encumbrances</i>	\$ (39,793)	\$ (39,793)	\$ 67,772	\$ (31,174)	\$ (31,174)	\$ 9,067	\$ (46,070)	\$ (46,070)	\$ (20,484)
<b>Adjustments to Prior Year Encumbrances</b>	\$ 0	\$ 0	\$ (4,501)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Other Financing Sources (Uses):</b>									
Estopped Warrants	\$ 0	\$ 0	\$ 277	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0	0	0	0
Transfers Out	(3,000)	(3,000)	(3,000)	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (3,000)</u>	<u>\$ (3,000)</u>	<u>\$ (2,723)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected</i>									
<i>Over Expenditures Paid and Other Financing</i>									
<i>Sources (Uses)</i>	\$ (42,793)	\$ (42,793)	\$ 60,548	\$ (31,174)	\$ (31,174)	\$ 9,067	\$ (46,070)	\$ (46,070)	\$ (20,484)
<i>Fund Balance - Beginning of Year</i>	42,793	42,793	42,793	31,174	31,174	31,174	46,070	46,070	46,070
<i>Fund Balance - End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 103,340</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40,241</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 25,585</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, 2011**

**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, 2011**

**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 2007 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, 2011**

**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, 2011**

**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, 2011**

**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, 2011, 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 – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

**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.

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

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

**1.F. Revenue, Expenses, and Expenditures, (continued)**

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.

**Note 2 – Deposit and Investment Risk**

The District held the following deposits and investments at June 30, 2011:

		Carrying Value
Deposits		
Demand Deposits	\$	346,326
Time Deposits		
Total Deposits	\$	346,326
Investments		
	<u>Credit Rating</u>	<u>Maturity</u>
		Fair Value
		\$ 0
Total Investments		\$ 0
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	344,131
Activity Fund Outstanding Checks		2,195
Total Deposits and Investments	\$	346,326

**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.

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 2 – Deposit and Investment Risk, (continued)**

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

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

**Investment Credit Risk** – The District 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.
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, 2011, 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.

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 2 – Deposit and Investment Risk, (continued)**

**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, 2011, 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.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2011:

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2010	200,000 \$	108,596	-	308,596
Additions	-	55,464	-	55,464
Retirements	(100,000)	(78,384)	-	(178,384)
Balance, June 30, 2011	100,000 \$	85,676	-	185,676

A brief description of the outstanding general obligation bond issues at June 30, 2011 is set forth below:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2007 Combined Purpose Bonds	3.70 to 3.75%	May 1, 2012	\$ 400,000	\$ 100,000
<b>Totals</b>			<b>\$ 400,000</b>	<b>\$ 100,000</b>



**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

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

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

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
<b>2007 Combined Purpose Bonds</b>					
2011-12	100,000	\$	3,750	\$	103,750
<b>Sub Total</b>	<u>100,000</u>	\$	<u>3,750</u>	\$	<u>103,750</u>
 <b>Total Bonds</b>	 <u>100,000</u>	\$	 <u>3,750</u>	\$	 <u>103,750</u>

Interest expense on bonds payable incurred during the current year totaled \$7,450

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. The buses were paid off during the 2010-11 year.

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	<u>Copiers</u>		<u>Copiers</u>		<u>Chevy Pickup</u>		<u>Brush Hog</u>		<u>Total</u>
2012	12,600		10,800		7,492		4,970		35,862
2013	12,600		0		7,492		2,485		22,577
2014	12,600		0		7,492		0		20,092
2015	12,600		0		0		0		12,600
2016	4,200		0		0		0		4,200
 Total	 <u>54,600</u>	\$	 <u>10,800</u>	\$	 <u>22,476</u>	\$	 <u>7,455</u>	\$	 <u>95,331</u>
Less: Amount Representing Interest	(5,737)		(1,258)		(2,060)		(600)		(9,655)
Present Value of Future Minimum Lease Payments	<u>48,863</u>	\$	<u>9,542</u>	\$	<u>20,416</u>	\$	<u>6,855</u>	\$	<u>85,676</u>

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**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. Under the System the District, the State of Oklahoma, and the participating employees make contributions. 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 requirements.

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, P.O. 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 or 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, and the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50% of applicable compensation for the year ended June 30, 2011. 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, 2011, 2010, and 2009 were \$103,660, \$116,972 and \$107,915 respectively.

The compensation for employees covered by the System for the year ended June 30, 2011 was \$1,085,314; the District's total compensation was \$1,311,024. In addition to the District's 9.50% contributions, the District was required to pay into the System 6.5% of compensation arising from federal grants (\$7,084) and 9.50% of compensation arising from post retirement employees (\$7,220). There were \$58,036 contributions made by employees during the year ended June 30, 2011.

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, 2010, is as follows:

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 4 - Employee Retirement System, (continued)**

Total pension obligation	\$ 19,980,640,592
Net assets available for benefits, at cost	<u>9,566,683,405</u>
 Nonfunded pension benefit obligation	 <u>\$ 10,413,957,187</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, 2010. 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, employees' health and life and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**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, 2010 to August 21, 2011.

The encumbrance clerk is bonded by Mid-Continent Group, bond #0400086 for the penal sum of \$10,000 for the term of June 17, 2010 to June 17, 2011.

The Superintendent is bonded by Mid RLI Insurance Company, bond #LSM0224065 for the penal sum of \$100,000 for the term September 22, 2010 to September 22, 2011.

**Paoli ISD No. 5, Garvin County**  
**Notes To The Financial Statements**  
**For The Year Ended June 30, 2011**

**Note 9 – Budget Amendments**

The general fund budget was amended during the year by filing a supplemental appropriation with the county clerk's office. The supplemental appropriation was filed in June of 2011 in the amount of \$83,501. This increased the original general fund budget from \$1,905,445 to \$1,988,956.

**Note 10 – Negative Balance in Cooperative Fund**

The District had a negative \$2,863.55 balance in the Cooperative Fund as of June 30, 2011. This was due to expenditures being paid and claim for reimbursement filed, but revenue not received until after June 30, 2011. The negative balance was cleared once the grant proceeds were received.

OTHER SUPPLEMENTAL INFORMATION

**Paoli School District No.1-005, Garvin County, Oklahoma**  
**Combining Statement of Assets, Liabilities and Cash Fund Balances**  
**Regulatory Basis - All Special Revenue Funds**  
**For the Year Ending June 30, 2011**

<b><u>ASSETS</u></b>	<b><u>Building Fund</u></b>	<b><u>Child Nutrition Fund</u></b>	<b><u>Coop Fund</u></b>	<b><u>Total June 30, 2011</u></b>
Cash and Cash Equivalents	\$ 14,566	\$ 31,487	\$ (1,701)	\$ 44,352
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 14,566</u>	<u>\$ 31,487</u>	<u>\$ (1,701)</u>	<u>\$ 44,352</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Liabilities:				
Warrants Payable	\$ 2,178	\$ 771	\$ 1,163	\$ 4,112
Reserve for Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u>\$ 2,178</u>	<u>\$ 771</u>	<u>\$ 1,163</u>	<u>\$ 4,112</u>
Fund Balance:				
Cash Fund Balance	\$ 12,388	\$ 30,717	\$ (2,864)	\$ 40,241
<i>Total Fund Balance</i>	<u>\$ 12,388</u>	<u>\$ 30,717</u>	<u>\$ (2,864)</u>	<u>\$ 40,241</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 14,566</u>	<u>\$ 31,487</u>	<u>\$ (1,701)</u>	<u>\$ 44,352</u>

**Paoli School District No. I-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, 2011**

	<b>Building Fund</b>	<b>Child Nutrition Fund</b>	<b>Cooperative Fund</b>	<b>Total June 30, 2011</b>
<b>Revenue Collected:</b>				
Local Sources	\$ 30,415	\$ 54	\$ 15,015	\$ 45,484
Intermediate Sources	0	0	0	0
State Sources	7,158	9,195	36,057	52,410
Federal Sources	0	102,651	0	102,651
Non-Revenue Receipts	0	9,832	0	9,832
<i>Total Revenue Collected</i>	<u>\$ 37,573</u>	<u>\$ 121,732</u>	<u>\$ 51,072</u>	<u>\$ 210,377</u>
<b>Expenditures Paid:</b>				
Instruction	\$ 0	\$ 0	\$ 30,891	\$ 30,891
Support Services	39,984	0	21,288	61,272
Operation of Non-Instructional Services	0	109,147	0	109,147
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>\$ 39,984</u>	<u>\$ 109,147</u>	<u>\$ 52,179</u>	<u>\$ 201,310</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (2,410)</u>	<u>\$ 12,585</u>	<u>\$ (1,107)</u>	<u>\$ 9,067</u>
<b>Adjustments to Prior Year Encumbrances</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Other Financing Sources (Uses):</b>				
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</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>\$ (2,410)</u>	<u>\$ 12,585</u>	<u>\$ (1,107)</u>	<u>\$ 9,067</u>
<i>Fund Balance - Beginning of Year</i>	<u>14,798</u>	<u>18,132</u>	<u>(1,756)</u>	<u>31,174</u>
<i>Fund Balance - End of Year</i>	<u><u>\$ 12,388</u></u>	<u><u>\$ 30,717</u></u>	<u><u>\$ (2,864)</u></u>	<u><u>\$ 40,241</u></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, 2011

	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
<b>Revenue Collected:</b>												
Local Sources	\$ 27,266	\$ 27,266	\$ 30,415	\$ 18,000	\$ 18,000	\$ 15,015	\$ 9,155	\$ 9,155	\$ 54	\$ 54,421	\$ 54,421	\$ 45,484
Intermediate Sources	0	0	0	0	0	0	0	0	0	0	0	0
State Sources	0	0	7,158	36,058	36,058	36,057	10,300	10,300	9,195	46,358	46,358	52,410
Federal Sources	0	0	0	0	0	0	83,000	83,000	102,651	83,000	83,000	102,651
Non-Revenue Receipts	0	0	0	0	0	0	0	0	9,832	0	0	9,832
<i>Total Revenue Collected</i>	<u>\$ 27,266</u>	<u>\$ 27,266</u>	<u>\$ 37,573</u>	<u>\$ 54,058</u>	<u>\$ 54,058</u>	<u>\$ 51,072</u>	<u>\$ 102,455</u>	<u>\$ 102,455</u>	<u>\$ 121,732</u>	<u>\$ 183,779</u>	<u>\$ 183,779</u>	<u>\$ 210,377</u>
<b>Expenditures Paid:</b>												
Instruction	\$ 0	\$ 0	\$ 0	\$ 31,478	\$ 31,478	\$ 30,891	\$ 0	\$ 0	\$ 0	\$ 31,478	\$ 31,478	\$ 30,891
Support Services	42,064	42,064	39,984	20,824	20,824	21,288	0	0	0	62,888	62,888	61,272
Operation of Non-Instructional Services	0	0	0	0	0	0	120,587	120,587	109,147	120,587	120,587	109,147
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>\$ 42,064</u>	<u>\$ 42,064</u>	<u>\$ 39,984</u>	<u>\$ 52,302</u>	<u>\$ 52,302</u>	<u>\$ 52,179</u>	<u>\$ 120,587</u>	<u>\$ 120,587</u>	<u>\$ 109,147</u>	<u>\$ 214,953</u>	<u>\$ 214,953</u>	<u>\$ 201,310</u>
<i>Excess of Revenues Collected Over (Under)</i>												
<i>Expenditures Paid Before Adjustments to</i>												
<i>Prior Year Encumbrances</i>	<u>\$ (14,798)</u>	<u>\$ (14,798)</u>	<u>\$ (2,410)</u>	<u>\$ 1,756</u>	<u>\$ 1,756</u>	<u>\$ (1,107)</u>	<u>\$ (18,132)</u>	<u>\$ (18,132)</u>	<u>\$ 12,585</u>	<u>\$ (31,174)</u>	<u>\$ (31,174)</u>	<u>\$ 9,067</u>
<b>Adjustments to Prior Year Encumbrances</b>	<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>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Other Financing Sources (Uses):</b>												
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0	0	0	0	0	0	0
Transfers Out	0	0	0	0	0	0	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<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>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected</i>												
<i>Over Expenditures Paid and Other Financing</i>												
<i>Sources (Uses)</i>	<u>\$ (14,798)</u>	<u>\$ (14,798)</u>	<u>\$ (2,410)</u>	<u>\$ 1,756</u>	<u>\$ 1,756</u>	<u>\$ (1,107)</u>	<u>\$ (18,132)</u>	<u>\$ (18,132)</u>	<u>\$ 12,585</u>	<u>\$ (31,174)</u>	<u>\$ (31,174)</u>	<u>\$ 9,067</u>
<i>Fund Balance - Beginning of Year</i>	<u>14,798</u>	<u>14,798</u>	<u>14,798</u>	<u>(1,756)</u>	<u>(1,756)</u>	<u>(1,756)</u>	<u>18,132</u>	<u>18,132</u>	<u>18,132</u>	<u>31,174</u>	<u>31,174</u>	<u>31,174</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 12,388</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (2,864)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 30,717</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 40,241</u>

Exhibit A-3



**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, 2011**

<b><u>ASSETS</u></b>	<b>School Activity Fund</b>
Cash	\$ 43,844
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 43,844</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>	
Liabilities:	
Due To Activity Groups	\$ <u>43,844</u>
<i>Total Liabilities</i>	<u>\$ 43,844</u>
Fund Equity:	
Unreserved/Undesignated	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 43,844</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, 2011**

<b>ACTIVITIES</b>	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2011</b>
Miscellaneous	\$ 52	\$ 387	\$ 335	\$ 105
Athletics	9,866	21,780	27,157	4,490
Journalism	1,516	6,152	7,665	2
Petty Cash	0	1,100	1,100	0
FFA	3,316	22,426	23,586	2,157
J.H. Cheerleaders	0	269	0	269
Home Economics	3	0	0	3
Elementary	4,529	12,233	10,404	6,358
Concessions	0	12,207	12,207	0
Student Council	4,220	4,778	7,718	1,280
Pep Club	234	0	0	234
Scale Fund	349	106	208	247
Big -8 Conference Tournament	0	18,772	8,907	9,865
Library	1,200	77		1,278
Elementary Library	1,116	2,382	1,106	2,392
Child Nutrition	0	9,832	9,832	0
Poetry Club	53	0	0	53
Med-C/C /reimbursement	0	11,570	11,570	0
High School Cheerleaders	1,640	1,894	2,628	906
Pop Machine	184	22	177	29
PHS Academic	45	0	0	45
Paoli Elementary Academic	45	0	45	0
Paoli High School	558	1,717	1,219	1,056
Art	23	0	0	23
Girls Basketball Fund	198	1,279	714	763
Spanish Club	66	0	0	66
Recycle	442	0	0	442
FFA Leadership	469	4,498	3,858	1,108
H.S. Boys Athletics	1,225	1,502	1,889	838
Flower Fund	6	0	0	6
Drama Club	134	0	0	134
H.S. Girls Athletics	33	3,604	3,635	2
Class of 2008	1	0	0	1
Class of 2009	82	0	0	82
Class of 2010	628	0	0	628
Class of 2011	312	500	468	344
Justin Whitefield Scholarship	220	0	0	220
C.O. & K.L. Balentine Scholarship	4,500	5,000	5,000	4,500
Lovey Dulin Scholarship Fund	0	1,250	1,000	250
Class of 2012	1,213	5,126	6,039	299
Class of 2013	25	2,910	0	2,935
Class of 2014	447	255	270	431
Class of 2015	4	0	0	4
Class of 2016	0	187	186	1
<b>Total Activities</b>	<b>\$ 38,951</b>	<b>\$ 153,816</b>	<b>\$ 148,923</b>	<b>\$ 43,844</b>

**PAOLI INDEPENDENT SCHOOL DISTRICT NO. 5, GARVIN COUNTY**  
**SCHEDULE OF FEDERAL AWARDS EXPENDED**  
**FOR THE YEAR ENDED JUNE 30, 2011**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>Federal CFDA#</b>	<b>Pass- Through Grantor's Project Number</b>	<b>Deferred Revenue (Accounts Receivable) July 1, 2010</b>	<b>Federal Grant Receipts</b>	<b>Federal Grant Expenditures</b>	<b>Deferred Revenue (Accounts Receivable) June 30, 2011</b>
<b>U.S. Department of Education</b>						
Direct Programs:						
Indian Education Title VII	84.060A	561	0	23,061	23,061	0
Small Rural School Achievement	84.358A	588	0	18,190	18,190	0
Passed Through Oklahoma State Department of Education:						
Title I, Basic	84.010	511	0	67,431	67,431	0
ARRA Title I, Basic	84.389	516	0	397	397	0
<b>Title I Cluster</b>			0	67,828	67,828	0
IDEA-B Flowthrough	84.027	621	(27,518)	91,644	64,126	0
ARRA IDEA B, Flow Through	84.391A	622	(8,081)	21,968	15,074	(1,187)
ARRA Preschool	84.392A	643	(1,339)	1,339	0	0
IDEA-B Preschool	84.173	641	0	1,333	1,333	0
<b>Special Education Cluster</b>			(36,938)	116,284	80,533	(1,187)
ARRA Education Stabilization Fund	84.394	782	0	61,425	61,425	0
<b>ARRA Stabilization Cluster</b>			0	61,425	61,425	0
Title II, Part A,	84.367	586	(1,740)	19,255	17,515	0
Title II, Part D	84.318	586	0	235	235	0
Title IV, Part A	84.186A	586	0			0
Educatin Jobs Funds	84.410	790	0	52,278	52,278	0
Passed Through Oklahoma Department of Vocational Education						
Carl Perkins	84.048	421	0	1,715	1,715	0
<b>Total U.S. Department of Education</b>			<b>(38,678)</b>	<b>360,271</b>	<b>322,780</b>	<b>(1,187)</b>
<b>U.S. Department of Agriculture</b>						
Passed Through State Department of Education:						
Breakfast Program (Note 2)	10.553	385	0	35,431	35,431	0
Lunch Program (Note 2)	10.555	385	0	67,220	67,220	0
Commodities Distributed-Lunch (Note 3)	10.555	385	0	6,710	6,710	0
<b>Child Nutrition Cluster</b>			0	109,361	109,361	0
<b>Total U.S. Department of Agriculture</b>			<b>0</b>	<b>109,361</b>	<b>109,361</b>	<b>0</b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>(38,678)</b>	<b>469,632</b>	<b>432,141</b>	<b>(1,187)</b>

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 - The District does not track expenditures paid from these federal programs separately. Thus, expenditure amounts are the amount of federal revenues received from these programs during the fiscal year.

Note 3 - Commodities received in the amount of \$6,710 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

The following transactions related to the American Recovery and Reinvestment Act:

	<b>CFDA #</b>	<b>Program #</b>	<b>Federal Grant Receipts</b>	<b>Federal Grant Expenditures</b>	<b>Deferred ARRA Revenue (Accounts Rec)</b>
ARRA Title I	84.389	516	397	397	0
ARRA Special Education	84.391A	622	21,968	15,074	(1,187)
ARRA Special Education Preschool	84.392A	643	1,339	0	0
ARRA Education Stabilization Fund	84.394	782	61,425	61,425	0
			<b>85,129</b>	<b>76,896</b>	<b>(1,187)</b>

**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 #5  
Garvin County, Oklahoma

Board Members:

We have audited the fund type and account group financial statements, including budget and actual, of **Paoli Independent School District #5**, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements, and have issued our report thereon dated November 28, 2011. The report on these financial statements was adverse because the District has elected to prepare 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 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 a departure related to the general fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

#### **2011-1 Finding**

**Statement of Condition** - The superintendent signed a three year contract for the 2009-10, 2010-11, and 2011-12 years. The contract stated he would be paid a base salary of \$43,950 x 2 for the 2009-10 school year and each year thereafter unless otherwise stated in a new contract. In a separate part of the contract, the District agrees to pay the superintendent the sum of \$8,000 for the 2009-2010 school year for extra duties performed as the LEA administrator and administrator/counselor for the South Central Alternative Education Program. However, the contract does not state that he will be paid this additional amount each year unless otherwise stated. The superintendent was paid \$8,000 during the 2010-11 year.

**Criteria** – State law prohibits a superintendent from being paid more than the amount stated on the contract on file at the Oklahoma Department of Education.

**Cause/Effect of Condition** –The contract was incorrectly worded. The superintendent performed the same extra duties in the 2010-11 year as he did in the 2009-10 year and the board of education was aware that he was being paid this extra amount.

**Recommendation** – The contract should be revised to include the extra duty to be paid each year thereafter unless otherwise stated in a new contract.

**Views of Responsible Officials and Planned Corrective Action** - The contract will be revised to include the extra duty salary for each year thereafter unless otherwise stated in a new contract.

#### **2011-2 – Finding**

**Statement of Condition** – We noted time sheets are being kept by most support employees, however, some are not being signed by the employee or the supervisor.

**Criteria**– The Fair Labor Standards Act requires time records to be maintained for non-exempt employees. Time sheets should be signed by the employee and the supervisor to certify actual hours worked.

**Cause/Effect of Condition** – Since time sheets are not signed, the district can not prove that an employee agrees with the amount of time worked in accordance with the Fair Labor Standards Act requirements.

**Recommendation** – We recommend time sheets be signed by the employee and a supervisor.

**Views of Responsible Officials and Planned Corrective Action** – Employees and supervisors will sign time sheets in the future.

#### **Compliance and Other Matters**

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

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The District's response to the findings identified in our audit are described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education of Paoli School, 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.

*Angel, Johnston & Blessingame, P.C.*

Chickasha, Oklahoma  
November 28, 2011

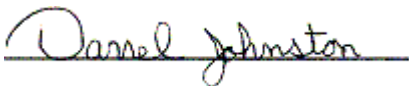
## OTHER INFORMATION

Paoli ISD No. 5, Garvin County  
Schedule of Accountant's Professional Liability Insurance Affidavit  
For Year Ending June 30, 2011

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 2010-2011.

ANGEL, JOHNSTON, & BLASINGAME, P.C.



by \_\_\_\_\_

Subscribed and sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_, 2011

\_\_\_\_\_  
Notary Public

My Commission Expires 11-12-12



Paoli ISD No. 5, Garvin County  
Summary Schedule Prior Year Audit Findings  
Year Ended June 30, 2011

**Financial Statement Findings**

**2010 -1 Finding Lack of Segregation of Duties**

**Statement of Condition** - A good system of internal control provides for a proper segregation of the accounting function. The district has a lack of segregation of duties in the activity fund.

**Criteria** – A good system of internal controls provides for a proper segregation of the collecting, check writing and reconciling functions.

**Cause/Effect of Condition** – Due to the limited number of personnel available in the accounting area, there is a possibility that errors or irregularities may occur and not be detected within a timely period by another employee while performing their normal procedures.

**Recommendation** – The board should assess the advantages of segregating the accounting functions in order to determine whether hiring/assigning additional personnel would be cost effective.

**Current Status** – Management does not feel it would be cost effective to hire the additional staff needed to segregate the duties.

**Management Letter Findings**

**2010-2 - Finding** – The superintendent was not bonded and the treasurer was only bonded for \$25,000. As of July 1, 2009, the Superintendent must be bonded for \$100,000. Also, the treasurer must be bonded for the amount of their cash balances but not more than the county treasurer's bond. The school has increased their bonds for the 2010/2011 fiscal year.

**Recommendation** - The school should ensure they meet all surety bond requirements.

**Current Status** – The superintendent was bonded for \$100,000 during the 2010-11 year.

**2010-3 – Finding** – While reviewing a “lease purchase agreement” for a 2010 brush hog, we noted that it did not include a mutual ratification clause. All lease purchases that extend beyond the end of the fiscal year are required to include a provision for mutual ratification each year.

**Recommendation** – We recommend all of the district's lease purchase agreements contain a mutual ratification clause.

**Current Status** – We did not note any lease purchases that lacked the mutual ratification clause.

**2010-4 – Finding** – We noted that 11 of 17 activity fund purchase orders and 11 of 18 purchase orders tested in the appropriated funds did not have a signature verifying the goods/services had been received.

**Recommendation** – We recommend the school require a signature verifying that goods or services were received in good condition prior to a check being issued.

**Current Status** – It appears the school is doing a better job of getting a signature verifying goods or services were received.