

**FINANCIAL STATEMENTS - REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITORS'**

**PRESTON SCHOOL DISTRICT NO. I-5,
Okmulgee County, Oklahoma**

JUNE 30, 2011

Audited by

**WILSON, DOTSON & ASSOCIATES, P.L.L.C.
SHAWNEE, OK
PRESTON SCHOOL DISTRICT NO. I-5**

Okmulgee County, Oklahoma
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2011

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**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

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JUNE 30, 2011**

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WILSON, DOTSON & ASSOCIATES, P.L.L.C.

Certified Public Accountants

Members

American Institute of Certified Public Accountants

Oklahoma Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Education
Preston School District Number I-5
Preston, Okmulgee County, Oklahoma

We have audited the accompanying fund type and general long-term debt financial statements, including budget and actual, of the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma (District) as of and for the year ended June 30, 2011, which collectively comprise the District's combined financial statements as listed in the table of contents. 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, the District prepares its financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education, which differs 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 related depreciation, and thus does not know the amount that should be recorded in the fixed assets. Therefore, the fixed assets have not been presented. This information is required under the regulatory presentation prescribed by the Oklahoma State Department of Education.

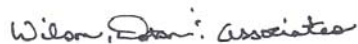
In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma as of June 30, 2011, or the changes in its financial position for the year then ended.

Independent Auditors' Report

In our opinion, except for the omission of the fixed assets which result 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 cash fund balances of Preston School District Number I-5, Preston, Okmulgee County, Oklahoma, as of June 30, 2011, the revenues it received and expenditures it paid and encumbered, and the respective budgetary comparison for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2012 on our consideration of the 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 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 financial statements that collectively comprise the District's combined financial statements. The combining financial statements and other schedules 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit 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 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.



Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
April 5, 2012

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

COMBINED STATEMENT OF ASSETS, LIABILITIES AND CASH FUND BALANCES - REGULATORY BASIS
ALL FUND TYPES AND GENERAL LONG-TERM DEBT
JUNE 30, 2011

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY FUND TYPES | GENERAL LONG-TERM DEBT | TOTALS (MEMORANDUM ONLY) |
|--|-------------------------|----------------------------|-----------------------------|-------------------------|----------------------------|------------------------------|--------------------------------|
| | <u>GENERAL</u> | <u>SPECIAL REVENUE</u> | <u>CAPITAL PROJECTS</u> | <u>DEBT SERVICE</u> | <u>AGENCY FUNDS</u> | | |
| <u>ASSETS</u> | | | | | | | |
| Cash | \$ 1,449,417 | 964,350 | 143,539 | 45,216 | 45,993 | - | 2,648,515 |
| Amounts available in debt service | - | - | - | - | - | 45,216 | 45,216 |
| Amounts to be provided for retirement of general long-term debt | - | - | - | - | - | 389,784 | 389,784 |
| Total Assets | <u>\$ 1,449,417</u> | <u>964,350</u> | <u>143,539</u> | <u>45,216</u> | <u>45,993</u> | <u>435,000</u> | <u>3,083,515</u> |
| <u>LIABILITIES AND CASH FUND BALANCES</u> | | | | | | | |
| Liabilities | | | | | | | |
| Warrants payable | \$ 278,740 | 2,211 | - | - | - | - | 280,951 |
| Encumbrances | 14,735 | - | - | - | - | - | 14,735 |
| Unmatured obligations | - | - | - | 36,173 | - | - | 36,173 |
| Funds held for school organizations | - | - | - | - | 31,391 | - | 31,391 |
| Long-term debt: | | | | | | | |
| Bonds payable | - | - | - | - | - | 435,000 | 435,000 |
| Total liabilities | <u>293,475</u> | <u>2,211</u> | <u>-</u> | <u>36,173</u> | <u>31,391</u> | <u>435,000</u> | <u>798,250</u> |
| Cash Fund Balances | | | | | | | |
| Restricted | - | 962,139 | 143,539 | 9,043 | 14,602 | - | 1,129,323 |
| Unassigned | <u>1,155,942</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,155,942</u> |
| Total cash fund balances | <u>1,155,942</u> | <u>962,139</u> | <u>143,539</u> | <u>9,043</u> | <u>14,602</u> | <u>-</u> | <u>2,285,265</u> |
| Total Liabilities and Cash Fund Balances | <u>\$ 1,449,417</u> | <u>964,350</u> | <u>143,539</u> | <u>45,216</u> | <u>45,993</u> | <u>435,000</u> | <u>3,083,515</u> |

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

**COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES
AND CHANGES IN CASH FUND BALANCES - REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2011**

| | GOVERNMENTAL FUND TYPES | | | | FIDUCIARY FUND TYPE | TOTALS |
|---|-------------------------|--------------------|---------------------|-----------------|------------------------|----------------------|
| | GENERAL | SPECIAL REVENUE | CAPITAL PROJECTS | DEBT SERVICE | EXPENDABLE TRUST | (MEMORANDUM ONLY) |
| Revenues collected: | | | | | | |
| Local sources | \$ 251,268 | 88,112 | - | 155,127 | 120 | 494,627 |
| Intermediate sources | 56,304 | - | - | - | - | 56,304 |
| State sources | 2,646,734 | 4,993 | - | 77 | - | 2,651,804 |
| Federal sources | 535,734 | 209,281 | - | - | - | 745,015 |
| Total revenues collected | <u>3,490,040</u> | <u>302,386</u> | <u>-</u> | <u>155,204</u> | <u>120</u> | <u>3,947,750</u> |
| Expenditures: | | | | | | |
| Instruction | 2,135,676 | - | - | - | - | 2,135,676 |
| Support services | 1,247,055 | - | - | - | - | 1,247,055 |
| Operation of non-instruction services | 26,485 | 207,006 | - | - | - | 233,491 |
| Other outlays | - | - | - | 159,841 | - | 159,841 |
| Repayments | 4,527 | - | - | - | - | 4,527 |
| Total expenditures | <u>3,413,743</u> | <u>207,006</u> | <u>-</u> | <u>159,841</u> | <u>-</u> | <u>3,780,590</u> |
| Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances | 76,297 | 95,380 | - | (4,637) | 120 | 167,160 |
| Adjustments to prior year encumbrances | <u>28,471</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,471</u> |
| Excess of revenues collected over (under) expenditures | 104,768 | 95,380 | - | (4,637) | 120 | 195,631 |
| Cash fund balances, beginning of year | <u>1,051,174</u> | <u>866,759</u> | <u>143,539</u> | <u>13,680</u> | <u>14,482</u> | <u>2,089,634</u> |
| Cash fund balances, end of year | <u>\$ 1,155,942</u> | <u>962,139</u> | <u>143,539</u> | <u>9,043</u> | <u>14,602</u> | <u>2,285,265</u> |

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

**COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES -
BUDGET AND ACTUAL - REGULATORY BASIS - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2011**

| | GENERAL FUND | | | SPECIAL REVENUE FUNDS | | | SINKING FUND | | |
|--|--------------------|------------------|------------------|-----------------------|------------------|----------------|--------------------|-----------------|----------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
| Revenues collected: | | | | | | | | | |
| Local sources | \$ 214,084 | 214,084 | 251,268 | 60,555 | 60,555 | 88,112 | 146,161 | 146,161 | 155,127 |
| Intermediate sources | 51,090 | 51,090 | 56,304 | - | - | - | - | - | - |
| State sources | 2,543,501 | 2,543,501 | 2,646,734 | 4,304 | 4,304 | 4,993 | - | - | 77 |
| Federal sources | 326,136 | 326,136 | 535,734 | 149,387 | 149,387 | 209,281 | - | - | - |
| Total revenues collected | <u>3,134,811</u> | <u>3,134,811</u> | <u>3,490,040</u> | <u>214,246</u> | <u>214,246</u> | <u>302,386</u> | <u>146,161</u> | <u>146,161</u> | <u>155,204</u> |
| Expenditures: | | | | | | | | | |
| Instruction | - | 2,135,676 | 2,135,676 | - | - | - | - | - | - |
| Support services | - | 1,247,055 | 1,247,055 | - | - | - | - | - | - |
| Operation of non-instruction services | - | 26,485 | 26,485 | - | 207,006 | 207,006 | - | - | - |
| Other outlays | - | - | - | - | - | - | 159,841 | 159,841 | 159,841 |
| Repayments | - | 4,527 | 4,527 | - | - | - | - | - | - |
| Unbudgeted | <u>4,185,985</u> | <u>772,242</u> | <u>-</u> | <u>1,081,005</u> | <u>873,999</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total expenditures | <u>4,185,985</u> | <u>4,185,985</u> | <u>3,413,743</u> | <u>1,081,005</u> | <u>1,081,005</u> | <u>207,006</u> | <u>159,841</u> | <u>159,841</u> | <u>159,841</u> |
| Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances | (1,051,174) | (1,051,174) | 76,297 | (866,759) | (866,759) | 95,380 | (13,680) | (13,680) | (4,637) |
| Adjustments to prior year encumbrances | <u>-</u> | <u>-</u> | <u>28,471</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of revenues collected over (under) expenditures | (1,051,174) | (1,051,174) | 104,768 | (866,759) | (866,759) | 95,380 | (13,680) | (13,680) | (4,637) |
| Cash fund balances, beginning of year | <u>1,051,174</u> | <u>1,051,174</u> | <u>1,051,174</u> | <u>866,759</u> | <u>866,759</u> | <u>866,759</u> | <u>13,680</u> | <u>13,680</u> | <u>13,680</u> |
| Cash fund balances, end of year | <u>\$ -</u> | <u>-</u> | <u>1,155,942</u> | <u>-</u> | <u>-</u> | <u>962,139</u> | <u>-</u> | <u>-</u> | <u>9,043</u> |

The notes to the combined financial statements - regulatory basis are an integral part of this statement.

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma (the "District") conform to the regulatory basis of accounting, which is an other comprehensive basis of accounting prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The District's accounting policies are described in the following notes that are an integral part of the District's financial statements. The District has adopted the Governmental Accounting Standards Board (GASB) 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefines the fund balance classifications from the previous two (2) into a possible five (5) classifications.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on state of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

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

B. Measurement Focus

The accounts of the District are organized and operate on the basis of funds and general long-term debt. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The general long-term debt is a reporting device to account for certain liabilities of the governmental funds not recorded directly in other funds.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

The District has the following fund types and account groups:

Governmental funds – are used to account for most of the District's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. All revenues from all sources, including property taxes, entitlements, grants, and shared revenues are recognized when they are received rather than earned.

Expenditures are generally recognized when encumbered or reserved rather than at the time the related liability is incurred. Unmatured interest for debt service is recognized when due and certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Fiduciary type funds are accounted for using the cash basis of accounting. These practices differ from generally accepted accounting principles.

Governmental funds include the following fund types:

General fund – is the general operating fund of the District. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use. Major revenue sources include local property taxes and federal and state funding. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction, and debt service on bonds and other long-term debt. The General Fund also accounts for federal and state financed programs where restricted monies must be expended for specific programs. Project accounting is employed to maintain integrity for the various sources of these funds.

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

Building fund – consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing, or maintaining school buildings and for purchasing furniture, equipment and computer

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

software to be used on or for school district property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire and casualty insurance premiums for school facilities, for purchasing security systems, and for paying salaries of security personnel.

Co-op Fund – The co-op fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school districts. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs.

Child Nutrition Fund – The Child Nutrition Fund consists of monies derived from local food sales and federal and state financial assistance. This fund is used to account for the various nutrition programs provided to students.

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

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

Fiduciary funds – account for assets held by the District in a trustee capacity or as an agent on behalf of others.

Expendable Trust Funds - Expendable trust funds includes the District's gifts fund. The gifts fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

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

General Long-term Debt – accounts for the outstanding principal balances of 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.

C. Basis of Accounting and Presentation

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

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Compensated absences are recorded as an expenditure and liability when the obligation is paid.

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.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Cash Fund Balances, Revenue and Expenditures

1. Deposits and Investments

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

2. Fair Value of Financial Instruments

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

3. Estimates

The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

5. Inventories

Inventories consist of minimal amounts of expendable supplies held for consumption. The value of consumable inventories at year-end is not material to the District's financial statements. The cost of inventories are recorded as expenditures when encumbered and purchased rather than when consumed.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Cash Fund Balances, Revenue and Expenditures – cont'd

6. Fixed Assets

The regulatory basis of accounting prescribed by the Oklahoma State Board of Education requires the presentation of fixed assets. The District has not maintained a record of its fixed assets, and, accordingly, a statement of fixed assets required by generally accepted accounting principles prior to the issuance of GASB No. 34, is not included in the financial statements. Fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

7. Compensated Absences

The District provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. District policy allows certified employees to accumulate such days to a maximum number of days. None of the benefits are payable upon retirement or death. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

8. Long-term Obligations

The District reports long-term debt at face value in the general long-term debt account group. Certain other lease obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

9. Cash Fund Balance Classifications

Restricted Cash Fund Balance – Cash fund balance should be reported as restricted when constraints placed on the use of resources are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Unassigned Cash Fund Balance – Unassigned cash fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Cash Fund Balances, Revenue and Expenditures – cont'd

10. Property Taxes and Other Local Revenues

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

11. Intermediate Revenues

Revenue from intermediate sources is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between the district and the state, and distributed to districts in amounts that differ in proportion to those which were collected within such systems.

12. State Revenues

Revenues from state sources for current operations are primarily governed by state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts. After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

The District receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Assets, Liabilities, Cash Fund Balances, Revenue and Expenditures – cont'd

13. Federal Revenues

Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a pass through from another government, such as the state. Entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes. The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains a separate child nutrition fund and the federal revenues received for the child nutrition programs are apportioned there.

14. Non-Monetary Transactions

The District receives commodities from the U. S. Department of Agriculture. The value of these commodities has been included in the Schedule of Expenditures of Federal Awards; however, they have not been reflected in the combined financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

15. Memorandum Only – Total Columns

Total columns on the combined financial statements are captioned "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position or results of operations in accordance with generally accepted accounting principles. Inter-fund eliminations have not been made in the aggregation of this data.

16. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data (i.e., presentation of prior year totals by fund type in each of the statements) has not been presented since their inclusion would make the statements unduly complex and difficult to read.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required by state law to prepare an annual budget. A preliminary budget is submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. The electors of the District have voted on the question to make the ad valorem levy for emergency levy and local support levy permanent; therefore, an annual mileage election (normally the first Tuesday

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – cont'd

Budgetary Information – cont'd

in February) is not necessary. Under current Oklahoma Statutes, a formal Estimate of Needs (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. The annual Estimate of Needs, when approved by the Board and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, were made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all Governmental Funds of the District. Purchase orders or contracts document encumbrances for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

Exposure to custodial credit risk 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 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.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

A. Deposits and Investments – cont'd

At June 30, 2011 the District held deposits of approximately \$2,655,533 at financial institutions. The District's cash deposits, including interest-bearing accounts, are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name. Therefore, 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 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. 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.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

A. Deposits and Investments – cont'd

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 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. 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.

B. Long-term Debt

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

On January 1, 2008, the District issued building bonds in the amount of \$100,000 with interest rates ranging from 3.30% to 6.00%. Bond maturities began January 1, 2011 with an initial increment of \$30,000, increments of \$35,000 per year, thereafter, with a final maturity of \$35,000 due January 1, 2012.

On July 1, 2010, the District issued building bonds in the amount of \$400,000 with interest rates ranging from 1.60% to 1.70%. Bond maturities begin July 1, 2012 with an initial increment of \$120,000, increments of \$140,000 per year, thereafter, with a final maturity of \$140,000 due July 1, 2014.

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011

3. DETAILED NOTES CONCERNING THE FUNDS – cont'd

B. Long-term Debt – cont'd

Annual debt service requirements to maturity are as follows:

| Year Ended June 30, | General Obligation Bonds | | Total Requirements |
|---------------------------|--------------------------|---------------|-----------------------|
| | Principal | Interest | |
| 2012 | \$ 35,000 | 1,173 | 36,173 |
| 2013 | 120,000 | 15,630 | 135,630 |
| 2014 | 140,000 | 3,430 | 143,430 |
| 2015 | 140,000 | 1,120 | 141,120 |
| Total | <u>\$ 435,000</u> | <u>21,353</u> | <u>456,353</u> |

Interest paid on general long-term debt during the current year totaled \$24,424.

C. Changes in General Long-term Debt

General long-term debt consists of bonds payable and capital leases. The following is a summary of the changes in general long-term debt transaction of the District for the fiscal year:

| | Balance July 1, 2010 | Additions | Retirements | Balance June 30, 2011 |
|--------|----------------------------|----------------|----------------|-----------------------------|
| Bonds | \$ 220,000 | 400,000 | 185,000 | 435,000 |
| Leases | 400,000 | - | 400,000 | - |
| Total | <u>\$ 620,000</u> | <u>400,000</u> | <u>585,000</u> | <u>435,000</u> |

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011

4. OTHER INFORMATION

A. Risk Management

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

The School participates in a risk pool for Worker's 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 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 years. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use their loss fund in three years it is returned to them with no interest.

B. Contingent Liabilities

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

C. Non-Monetary Transactions

The fair market value as determined by the Oklahoma Department of Human Services of the commodities received during the period under audit was \$14,371.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

4. OTHER INFORMATION – cont'd

D. Employee Retirement System and Plan

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers' Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152 or by calling 405-521-2387.

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employees make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.00% of covered compensation. Additionally, OTRS receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. The matching contribution rate was 6.5%. Contributions received by the System from the State of Oklahoma are from 5.00% of its revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. The District's employer contribution rate was 9.50%. The District is allowed by the Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

4. OTHER INFORMATION – cont'd

D. Employee Retirement System and Plan – cont'd

Annual Pension Cost

The District's total contributions, including the state credit, for 2011, 2010 and 2009 were \$340,857, \$336,080 and \$319,539, respectively.

Schedule of Funding Progress (dollars in millions) (unaudited)

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as % of Covered Payroll (b-a)/(c) |
|-----------------------------|--|--|---|-----------------------|------------------------------------|---|
| June 30, 2002 | \$ 6,310.9 | \$ 12,275.9 | \$ 5,965.0 | 51.4% | \$ 3,047.1 | 195.8% |
| June 30, 2003 | 6,436.9 | 11,925.2 | 5,488.3 | 54.0% | 3,045.7 | 180.2% |
| June 30, 2004 | 6,660.9 | 14,080.1 | 7,419.2 | 47.3% | 3,030.7 | 244.8% |
| June 30, 2005 | 6,952.7 | 14,052.4 | 7,099.7 | 49.5% | 3,175.2 | 223.6% |
| June 30, 2006 | 7,470.4 | 15,143.4 | 7,672.9 | 49.3% | 3,354.9 | 228.7% |
| June 30, 2007 | 8,421.9 | 16,024.4 | 7,602.5 | 52.6% | 3,598.9 | 211.2% |
| June 30, 2008 | 9,256.8 | 18,346.9 | 9,090.1 | 50.5% | 3,751.4 | 242.3% |
| June 30, 2009 | 9,439.0 | 18,950.9 | 9,512.0 | 49.8% | 3,807.9 | 249.8% |
| June 30, 2010 | 9,566.7 | 19,980.6 | 10,414.0 | 47.9% | 3,854.8 | 270.2% |
| June 30, 2011 | 9,960.6 | 17,560.8 | 7,600.2 | 56.7% | 3,773.3 | 201.4% |

The employer contribution rates are established by the Oklahoma Legislature and are less than the annual required contribution, which is performed to determine the adequacy of such contribution rates.

E. Surety Bonds

The treasurer is bonded by The Ohio Casualty Surety Company, bond number 3-862-365 for the penal sum of \$100,000, term beginning July 1, 2010 and ending July 1, 2011. This is a renewal of a continuous bond.

The superintendent/activity fund custodian is bonded by The Western Surety Company, bond number 0601-69191071 for the penal sum of \$100,000, term beginning July 1, 2010 and ending July 1, 2011. This is a renewal of a continuous bond.

The encumbrance/minutes clerk is bonded by The Ohio Casualty Surety for the penal sum of \$1,000, term beginning June 13, 2011 and ending June 13, 2012. This is a renewal of a continuous bond.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
June 30, 2011**

4. OTHER INFORMATION – cont'd

G. Subsequent Events

Subsequent events have been evaluated through April 5, 2012, which is the date the financial statements were available to be issued.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**COMBINING STATEMENT OF ASSETS, LIABILITIES AND CASH FUND BALANCES -
REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2011**

| | <u>BUILDING FUND</u> | <u>COOP FUND</u> | <u>CHILD NUTRITION FUND</u> | <u>TOTAL</u> |
|---|--------------------------|----------------------|-------------------------------------|----------------|
| <u>ASSETS</u> | | | | |
| Cash | <u>\$ 938,300</u> | <u>100</u> | <u>25,950</u> | <u>964,350</u> |
| <u>LIABILITIES AND CASH FUND BALANCES</u> | | | | |
| Liabilities | | | | |
| Warrants payable | \$ - | - | 2,211 | 2,211 |
| Cash Fund Balances | | | | |
| Restricted | <u>938,300</u> | <u>100</u> | <u>23,739</u> | <u>962,139</u> |
| Total Liabilities and Cash Fund Balances | <u>\$ 938,300</u> | <u>100</u> | <u>25,950</u> | <u>964,350</u> |

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

**COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN
CASH FUND BALANCES - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>BUILDING FUND</u> | <u>COOP FUND</u> | <u>CHILD NUTRITION FUND</u> | <u>TOTAL</u> |
|--|--------------------------|----------------------|-------------------------------------|----------------|
| Revenues collected: | | | | |
| Local sources | \$ 60,314 | - | 27,798 | 88,112 |
| State sources | - | - | 4,993 | 4,993 |
| Federal sources | <u>34,773</u> | <u>-</u> | <u>174,508</u> | <u>209,281</u> |
| Total revenues collected | <u>95,087</u> | <u>-</u> | <u>207,299</u> | <u>302,386</u> |
| Expenditures: | | | | |
| Operation of non-instruction services | <u>-</u> | <u>-</u> | <u>207,006</u> | <u>207,006</u> |
| Excess of revenues collected over (under) expenditures | 95,087 | - | 293 | 95,380 |
| Cash fund balances, beginning of year | <u>843,213</u> | <u>100</u> | <u>23,446</u> | <u>866,759</u> |
| Cash fund balances, end of year | <u>\$ 938,300</u> | <u>100</u> | <u>23,739</u> | <u>962,139</u> |

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

**COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES
AND CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

| | <u>BUILDING FUND</u> | | | <u>COOP FUND</u> | | |
|--|----------------------------|-------------------------|----------------|----------------------------|-------------------------|---------------|
| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
| Revenues collected: | | | | | | |
| Local sources | \$ 30,583 | 30,583 | 60,314 | - | - | - |
| State sources | - | - | - | - | - | - |
| Federal sources | - | - | 34,773 | - | - | - |
| Total revenues collected | <u>30,583</u> | <u>30,583</u> | <u>95,087</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Expenditures: | | | | | | |
| Operation of non-instruction services | - | - | - | - | - | - |
| Unbudgeted | <u>873,796</u> | <u>873,796</u> | <u>-</u> | <u>100</u> | <u>100</u> | <u>-</u> |
| Total expenditures | <u>873,796</u> | <u>873,796</u> | <u>-</u> | <u>100</u> | <u>100</u> | <u>-</u> |
| Excess of revenues collected over (under) expenditures | (843,213) | (843,213) | 95,087 | (100) | (100) | - |
| Cash fund balances, beginning of year | <u>843,213</u> | <u>843,213</u> | <u>843,213</u> | <u>100</u> | <u>100</u> | <u>100</u> |
| Cash fund balances, end of year | <u>\$ -</u> | <u>-</u> | <u>938,300</u> | <u>-</u> | <u>-</u> | <u>100</u> |

| CHILD NUTRITION FUND | | | TOTALS | | |
|----------------------|-----------------|----------------|--------------------|------------------|----------------|
| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL |
| 29,972 | 29,972 | 27,798 | 60,555 | 60,555 | 88,112 |
| 4,304 | 4,304 | 4,993 | 4,304 | 4,304 | 4,993 |
| <u>149,387</u> | <u>149,387</u> | <u>174,508</u> | <u>149,387</u> | <u>149,387</u> | <u>209,281</u> |
| <u>183,663</u> | <u>183,663</u> | <u>207,299</u> | <u>214,246</u> | <u>214,246</u> | <u>302,386</u> |
| - | 207,006 | 207,006 | - | 207,006 | 207,006 |
| <u>207,109</u> | <u>103</u> | <u>-</u> | <u>1,081,005</u> | <u>873,999</u> | <u>-</u> |
| <u>207,109</u> | <u>207,109</u> | <u>207,006</u> | <u>1,081,005</u> | <u>1,081,005</u> | <u>207,006</u> |
| (23,446) | (23,446) | 293 | (866,759) | (866,759) | 95,380 |
| <u>23,446</u> | <u>23,446</u> | <u>23,446</u> | <u>866,759</u> | <u>866,759</u> | <u>866,759</u> |
| <u>-</u> | <u>-</u> | <u>23,739</u> | <u>-</u> | <u>-</u> | <u>962,139</u> |

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**COMBINING STATEMENT OF ASSETS, LIABILITIES AND CASH FUND BALANCES -
REGULATORY BASIS - ALL FIDUCIARY FUND TYPES
JUNE 30, 2011**

| | EXPENDABLE TRUST FUND ALUMNI GIFTS FUND | AGENCY FUND ACTIVITY FUND | TOTAL |
|---|--|------------------------------------|--------|
| <u>ASSETS</u> | | | |
| Cash | \$ 14,602 | 31,391 | 45,993 |
| <u>LIABILITIES AND CASH FUND BALANCES</u> | | | |
| Liabilities | | | |
| Funds held for school organizations | \$ - | 31,391 | 31,391 |
| Cash Fund Balances | | | |
| Restricted | 14,602 | - | 14,602 |
| Total Liabilities and Cash Fund Balances | \$ 14,602 | 31,391 | 45,993 |

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
REGULATORY BASIS - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

| <u>ASSETS</u> | <u>BALANCE 7-01-10</u> | <u>ADDITIONS</u> | <u>ADJUST/ TRANSFERS</u> | <u>DEDUCTIONS</u> | <u>BALANCE 6-30-11</u> |
|--------------------------------------|----------------------------|--------------------|------------------------------|--------------------|----------------------------|
| Cash | <u>\$ 48,494</u> | <u>219,693</u> | <u>-</u> | <u>236,796</u> | <u>31,391</u> |
| <u>LIABILITIES</u> | | | | | |
| Funds held for school organizations: | | | | | |
| Athletics | \$ 4,202 | 44,294 | - | 39,807 | 8,689 |
| Concession | 14,952 | 39,899 | - | 42,298 | 12,553 |
| Juniors | 763 | 17,688 | - | 18,236 | 215 |
| Miscellaneous | 23,927 | 80,630 | - | 98,743 | 5,814 |
| Seniors | 1,312 | 23,452 | - | 24,127 | 637 |
| Yearbook | - | 13,585 | - | 13,585 | - |
| Interest | <u>3,338</u> | <u>145</u> | <u>-</u> | <u>-</u> | <u>3,483</u> |
| TOTAL LIABILITIES | <u>\$ 48,494</u> | <u>219,693</u> | <u>-</u> | <u>236,796</u> | <u>31,391</u> |

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

| <u>Federal Grantor/Pass Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Federal Grantor's/ Pass Through Grantor's Number</u> | <u>Approved Amount</u> | <u>Balance at July 1, 2010</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Balance at June 30, 2011</u> |
|--|------------------------------------|---|----------------------------|------------------------------------|-----------------|---------------------|-------------------------------------|
| <u>U.S. Department of Education:</u> | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Title VIII, Impact Aid | 84.041 | | \$ - | - | 34,773 | - | - |
| Title VIIA, Indian Education | 84.060A | S060A102095 | 43,097 | - | 43,097 | 43,097 | - |
| Small Rural Schools * | 84.358A | S358A100207 | 42,097 | - | 42,097 | 42,097 | - |
| Sub Total | | | <u>85,194</u> | <u>-</u> | <u>119,967</u> | <u>85,194</u> | <u>-</u> |
| <u>Passed Through State Department of Education:</u> | | | | | | | |
| Title I * | 84.010 | S010A100036 | 99,953 | - | 57,981 | 98,585 | 1,368 |
| Title I 2009-10 - Note 1 | 84.010 | S010A090036 | - | - | 24,558 | - | - |
| Title VIB, Rural Education Achievement Program * | 84.358 | | 17,412 | - | 9,474 | 17,412 | - |
| IDEA-B Flow Through | 84.027 | H027A100051 | 97,624 | - | 81,577 | 87,944 | 9,680 |
| IDEA-B Flow Through 2009-10 - Note 1 | 84.027 | H027A090051 | - | - | 26,701 | - | - |
| ARRA, IDEA-B Flow Through 2009-10 - Note 1 | 84.391 | H391A090051 | - | - | 2,279 | - | - |
| IDEA-B Preschool | 84.173 | H173A100084 | 611 | - | 611 | 611 | - |
| ARRA, Preschool 2009-10 - Note 1 | 84.392 | H392A090084 | - | - | 3,458 | - | - |
| ARRA, State Fiscal Stabilization Fund * | 84.394 | | 119,309 | - | 119,309 | 119,309 | - |
| ARRA, JOBS Fund * | 84.410 | | 98,417 | - | 98,417 | 98,417 | - |
| Sub Total | | | <u>433,326</u> | <u>-</u> | <u>424,365</u> | <u>422,278</u> | <u>11,048</u> |
| <u>U.S. Department of Health and Human Services:</u> | | | | | | | |
| <u>Passed Through State Department of Human Services:</u> | | | | | | | |
| Medical Assistance Program (medicaid) | 93.778 | | | | <u>9,577</u> | <u>9,577</u> | |
| <u>U.S. Department of Agriculture:</u> | | | | | | | |
| <u>Passed Through State Department of Human Services:</u> | | | | | | | |
| National School Lunch Program | 10.555 | | | | 137,867 | 137,867 | |
| National School Lunch Program - commodities - Note 2 | 10.555 | | | | 14,371 | 14,371 | |
| School Breakfast Program | 10.553 | | | | <u>36,641</u> | <u>36,641</u> | |
| Sub Total | | | | | <u>188,879</u> | <u>188,879</u> | |

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011**

| <u>Federal Grantor/Pass Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Federal Grantor's/ Pass Through Grantor's Number</u> | <u>Approved Amount</u> | <u>Balance at July 1, 2010</u> | <u>Receipts</u> | <u>Expenditures</u> | <u>Balance at June 30, 2011</u> |
|---|------------------------------------|---|----------------------------|------------------------------------|-----------------|---------------------|-------------------------------------|
| <u>Other Federal Assistance:</u> | | | | | | | |
| <u>Passed Through the Muscogee (Creek) Nation:</u> | | | | | | | |
| Johnson O'Malley | 15.130 | | \$ 12,600 | - | 5,136 | 8,714 | 3,886 |
| Johnson O'Malley 2009-10 carryover | 15.130 | | 11,520 | 5,098 | 4,983 | 4,983 | 115 |
| Johnson O'Malley 2009-10 - Note 1 | 15.130 | | - | - | 6,479 | - | - |
| Sub Total | | | <u>24,120</u> | <u>5,098</u> | <u>16,598</u> | <u>13,697</u> | <u>4,001</u> |
| Total Expenditures of Federal Awards - Note 3 | | | <u>\$ 542,640</u> | <u>5,098</u> | <u>759,386</u> | <u>719,625</u> | <u>15,049</u> |

Note 1: These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

Note 2: This amount represents federal non-cash assistance received in the form of commodities.

Note 3: Commodities received in the amount of \$14,371 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

* - Major program

WILSON, DOTSON & ASSOCIATES, P.L.L.C.

Certified Public Accountants

Members

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INDEPENDENT AUDITORS' 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
Preston School District Number I-5
Preston, Okmulgee County, Oklahoma

We have audited the fund type and general long-term debt financial statements, including budget and actual, of the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma, which collectively comprise the District's combined financial statements, as of and for the year ended June 30, 2011, and have issued our report thereon dated May 5, 2012. The report on these financial statements was adverse because the District has elected to prepare its financial statements in conformity with the accounting practices 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 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.

Independent Auditors' 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*

Compliance and Other Matters

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

We noted certain matters that we have reported to management of Preston School District No. I-5, Preston, Oklahoma, in a separate letter dated May 5, 2012.

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

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
May 5, 2012

WILSON, DOTSON & ASSOCIATES, P.L.L.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Board of Education
Preston School District Number I-5
Preston, Okmulgee County, Oklahoma

Compliance

We have audited the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the Preston School District Number I-5, Okmulgee County, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance
In Accordance With OMB Circular A-133


Internal Control Over Compliance

Management of the Preston School District Number I-5, Preston, Okmulgee County, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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



Wilson, Dotson & Associates, PLLC

Shawnee, Oklahoma
May 5, 2012

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditors' Results

Financial Statements

| | |
|--|---------------|
| Type of auditors' report issued: | Adverse |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified not considered to be material weakness(es)? | None reported |
| • Noncompliance material to the financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| • Material weakness(es) identified? | No |
| • Significant deficiency(ies) identified not considered to be material weakness(es)? | None reported |

| | |
|---|-------------|
| Type of auditors' report issued on compliance for major programs: | Unqualified |
|---|-------------|

| | |
|--|----|
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
|--|----|

Identification of major programs:

CFDA Numbers

Name of Federal Program

| | |
|---------|---------------------------------------|
| 84.010 | Title I |
| 84.358A | Small Rural Schools |
| 84.358 | Title VIB, REAP |
| 84.394 | ARRA, State Fiscal Stabilization Fund |
| 84.410 | ARRA, JOBS Fund |

| | |
|--|-----------|
| Dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
|--|-----------|

| | |
|--|----|
| Auditee qualified as low-risk auditee under OMB Circular A-133, Section 530? | No |
|--|----|

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section II – Financial Statement Findings

There were no material weaknesses or instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs, or material weakness or reportable conditions in internal control that are required to be reported.

**PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

There were no prior year findings or questioned costs.

PRESTON SCHOOL DISTRICT NO. I-5
Okmulgee County, Oklahoma

SCHEDULE OF ACCOUNTANTS' PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT
FOR THE YEAR ENDING JUNE 30, 2011

State of Oklahoma)
)ss
County of Pottawatomie)

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountants' 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 Preston Public Schools for the audit year 2010-11.

Wilson, Dotson & Associates, P.L.L.C.
Auditing Firm

Pamela R. Dotson

by _____
Authorized Agent

Subscribed and sworn to before me this 5th day of April, 2012.

Lisa Cook

Notary Public (or CLERK or JUDGE)
My Commission Expires March 10, 2015
Commission No. 11002236

