

**ANNUAL FINANCIAL REPORT
SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
JULY 1, 2011 TO JUNE 30, 2012**

**AUDITED BY
KERRY JOHN PATTEN, C.P.A.**

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012**

Board of Education

President	Lonnie Salyers
Vice-President	Brandon Merritt
Clerk	Brandon Daniels
Member	Greg Rice
Member	Johnny Morris

Superintendent of Schools

Tony Thomas

School District Treasurer

Renee Humphrey

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
JUNE 30, 2012**

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MAYES COUNTY, OKLAHOMA
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

The Board of Education
Salina School District No. 1-16
Salina, Oklahoma

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salina School District No. 1-16, Mayes County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the school's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the school's management. My responsibility is to express opinions on these financial statements based on our audit.

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

As described in note 1 to the financial statements, the District has recorded the capital assets at fair market values that came from the District's insurance policy. In my opinion, the capital assets should be stated at acquisition cost, net of accumulated depreciation to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded for general fixed assets is not known.

In my opinion, except for the effects valuing the fixed assets at fair market value, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salina School District No. 1-16, Mayes County, Oklahoma, as of June 30, 2012, and the respective changes in financial position, thereof and where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report March 8, 2013, on my consideration of the Salina School District's internal control over financial reporting and my 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 my audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Salina School District financial statements as a whole. The accompanying other supporting information, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic 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 Non-Profit Organizations*, and is also not a required part of the financial statements. The other supporting information and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

The Salina School District has not presented a management's discussion and analysis that accounting principles in the United States of America has determined is necessary to supplement, although not required to be a part of, the basis financial statements.



Kerry John Patten, C.P.A.
March 8, 2013

GOVERNMENT WIDE FINANCIAL STATEMENTS

**SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 1,836,385.65
Investment	108,032.35
Property tax receivable	69,660.69
Due from other governments	329,900.14
Miscellaneous receivables	-
Prepaid insurance	9,856.56
Capital assets	
Land	198,292.00
Other capital assets, net of accumulated depreciation	<u>8,792,578.99</u>
 Total Assets	 \$ <u>11,344,706.38</u>
<u>LIABILITIES</u>	
Accounts payable	\$ -
Wages payable	-
Long-term liabilities	
Due within one year	967,045.47
Due in more than one year	<u>1,488,444.14</u>
 Total Liabilities	 \$ <u>2,455,489.61</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	\$ 6,535,381.38
Reserved for:	
Debt service	287,479.17
Unrestricted	<u>2,066,356.22</u>
 Total Net Assets	 \$ <u><u>8,889,216.77</u></u>

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

**SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF ACTIVITIES
JUNE 30, 2012**

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ (3,879,822.22)	\$ -	\$ 1,433,390.92	\$ -	\$ (2,446,431.30)
Support Services					
Students	(191,469.41)	-	-	-	(191,469.41)
Instr. Staff	(187,174.73)	-	-	-	(187,174.73)
Gen. Adm.	(243,008.95)	-	-	-	(243,008.95)
School Adm.	(349,785.65)	-	-	-	(349,785.65)
Business	(155,204.42)	-	-	-	(155,204.42)
Op. & Maint.	(802,653.52)	-	166,553.80	-	(636,099.72)
Student Trans.	(159,320.52)	-	-	-	(159,320.52)
Non-Instructional	(417,332.23)	45,913.30	7,211.42	-	(364,207.51)
Capital Outlay	(450,150.00)	-	-	-	(450,150.00)
Other Outlays	(1,629.54)	-	-	-	(1,629.54)
Other Uses	(4,615.75)	-	-	-	(4,615.75)
Debt service interest	(12,485.00)	-	-	-	(12,485.00)
Depreciation - unallocated	(357,037.53)	-	-	-	(357,037.53)
Total Governmental Activities	\$ (7,211,689.47)	\$ 45,913.30	\$ 1,607,156.14	\$ -	\$ (5,558,620.03)

General revenues

Taxes:

Property taxes, levied for general purposes	\$ 618,547.74
Property taxes, levied for debt service	294,408.61
Other Taxes	411,659.05
Federal and State aid not restricted to specific purposes:	
General	3,755,565.66
Other	-
Interest and investment earnings	8,578.43
Miscellaneous	62,781.86
Total general revenues	5,151,541.35

Changes in net assets

Net assets - beginning	9,296,295.45
Net assets - ending	\$ 8,889,216.77

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

FUND FINANCIAL STATEMENTS

**SALINA SCHOOL DISTRICT NO. I-16
BALANCE SHEET
GOVERNMENTAL FUND TYPES
JUNE 30, 2012**

	Governmental Fund Types				Total Governmental Funds
	General Fund	Building Fund	Sinking Fund	Capital Projects Fund	
ASSETS					
Cash	\$ 1,247,870.21	\$ 306,452.05	\$ 282,063.39	\$ -	\$ 1,836,385.65
Investments	108,032.35				108,032.35
Receivables:					
Property taxes	41,005.64	5,859.55	22,795.50	-	69,660.69
Due from other governments	329,900.14	-	-	-	329,900.14
Prepaid insurance	9,856.56	-	-	-	9,856.56
Total assets	\$ 1,736,664.90	\$ 312,311.60	\$ 304,858.89	\$ -	\$ 2,353,835.39
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued wages payable	-	-	-	-	-
Deferred revenues	31,519.48	4,503.98	17,379.72	-	53,403.18
Total liabilities	\$ 31,519.48	\$ 4,503.98	\$ 17,379.72	\$ -	\$ 53,403.18
Fund equity:					
Fund Balances:					
Nonspendable Fund Balances:					
Prepaid insurance	\$ 9,856.56	\$ -	\$ -	\$ -	\$ 9,856.56
Restricted Fund Balances:					
Retirement of Long-Term Debt	-	-	287,479.17	-	287,479.17
Restricted for Construction	-	-	-	-	-
Restricted by Statute	-	307,807.62	-	-	307,807.62
Committed Fund Balances:					
Other Committed Fund Balances	-	-	-	-	-
Assigned Fund Balances:					
Encumbrances	-	-	-	-	-
Other Assigned Fund Balances	-	-	-	-	-
Unassigned	1,695,288.86	-	-	-	1,695,288.86
Total Fund Balances	\$ 1,705,145.42	\$ 307,807.62	\$ 287,479.17	\$ -	\$ 2,300,432.21
Total Liabilities and Fund Balances	\$ 1,736,664.90	\$ 312,311.60	\$ 304,858.89	\$ -	\$ 2,353,835.39

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

**SALINA SCHOOL DISTRICT NO. I-16
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

TOTAL FUND BALANCE-TOTAL GOVERNMENTAL FUNDS	\$	2,300,432.21
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.</p>		
Cost of assets	\$ 18,891,356.32	
Accumulated depreciation	(9,900,485.33)	8,990,870.99
<p>Property Taxes Receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.</p>		
		53,403.18
<p>Long-Term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>		
General obligation bonds payable	\$ (660,000.00)	
Capital leases payable	(1,795,489.61)	(2,455,489.61)
TOTAL NET ASSETS-GOVERNMENTAL ACTIVITIES	\$	<u>8,889,216.77</u>

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

SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Building Fund	Sinking Fund	Capital Projects Fund	Total Governmental Funds
Revenues:					
Local sources	\$ 583,999.51	\$ 130,798.36	\$ 277,028.89	\$ -	\$ 991,826.76
Intermediate sources	136,844.74	-	-	-	136,844.74
State sources	4,218,796.73	-	-	-	4,218,796.73
Federal sources	<u>1,237,185.58</u>	<u>166,553.80</u>	<u>-</u>	<u>-</u>	<u>1,403,739.38</u>
Total revenues	<u>\$ 6,176,826.56</u>	<u>\$ 297,352.16</u>	<u>\$ 277,028.89</u>	<u>\$ -</u>	<u>\$ 6,751,207.61</u>
Expenditures:					
Instructional	\$ 3,900,698.90	\$ -	\$ -	\$ -	\$ 3,900,698.90
Support services:					
Students	191,469.41	-	-	-	191,469.41
Staff	187,174.73	-	-	-	187,174.73
General administration	228,008.95	15,000.00	-	-	243,008.95
School administration	349,785.65	-	-	-	349,785.65
Business	155,204.42	-	-	-	155,204.42
Plant operations	537,869.07	264,784.45	-	-	802,653.52
Transportation	234,419.52	-	-	-	234,419.52
Noninstructional	416,707.23	625.00	-	-	417,332.23
Capital outlay	-	-	-	450,150.00	450,150.00
Other outlays	1,629.54	-	-	-	1,629.54
Debt service	-	-	75,000.00	-	75,000.00
Interest paid	-	-	12,485.00	-	12,485.00
Other uses	<u>4,615.75</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,615.75</u>
Total expenditures:	<u>\$ 6,207,583.17</u>	<u>\$ 280,409.45</u>	<u>\$ 87,485.00</u>	<u>\$ 450,150.00</u>	<u>\$ 7,025,627.62</u>
Excess of revenues over (under) expenditures	<u>\$ (30,756.61)</u>	<u>\$ 16,942.71</u>	<u>\$ 189,543.89</u>	<u>\$ (450,150.00)</u>	<u>\$ (274,420.01)</u>
Other sources of funds - proceeds on sale of bonds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of revenues and other sources of funds over (under) expenditures	<u>\$ (30,756.61)</u>	<u>\$ 16,942.71</u>	<u>\$ 189,543.89</u>	<u>\$ (450,150.00)</u>	<u>\$ (274,420.01)</u>
Fund balance, beginning of year	<u>\$ 1,735,902.03</u>	<u>\$ 290,864.91</u>	<u>\$ 97,935.28</u>	<u>\$ 450,150.00</u>	<u>\$ 2,574,852.22</u>
Fund balance, end of year	<u>\$ 1,705,145.42</u>	<u>\$ 307,807.62</u>	<u>\$ 287,479.17</u>	<u>\$ -</u>	<u>\$ 2,300,432.21</u>

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

**SALINA SCHOOL DISTRICT NO. I-16
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - governmental funds \$ (274,420.01)

Amounts reported for governmental activities in the statement of revenues, expenditures, and changes in net assets are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of revenues, expenditures, and changes in net assets. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlay expenditures	\$	-		
Depreciation expense		(357,037.53)		\$ (357,037.53)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of assets, liabilities, and net assets and does not affect the statement of revenues, expenditures, and changes in net assets. \$ 75,000.00

Some property taxes and other revenues will not be collected for several months after the fiscal year end. These are not considered "available" revenues in the governmental funds until received. \$ 53,403.18

Payments made on capital leases are expenditures in the governmental funds, but the payments reduce long-term liabilities in the statement of net assets. \$ 75,099

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure when it is due and, thus requires the use of current financial resources. In the statement of activities interest expense is recognized as the interest accrues, regardless of when it is due. \$ 20,876.68

Change in Net Assets of Governmental Activities \$ (407,078.68)

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

NOTES TO THE FINANCIAL STATEMENTS

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

The financial statements of the Salina Public Schools Independent District No. 16 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

A. Reporting Entity

In accordance with the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," the District has presented the entities which comprise the primary government in the fiscal year combined financial statements.

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 for 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 five elected members. The appointed superintendent is the executive officer of the District.

As required by accounting principles generally accepted in the United States of America, the combined financial statements present the reporting entity which consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the District's combined financial statements to be misleading or incomplete.

B. Basis of Presentation

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the school district. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) tuition or fees paid by students or citizens of the District and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items, including state aid, that are not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Fund Financial Statements

The school district segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Statements for governmental activities present each fund as a separate column on the fund financial statements.

Governmental funds are used to account for all or most of a government's general activities. The measurement focus of governmental funds is on the sources uses and balance of current financial resources. The school has presented the following governmental funds:

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

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

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

Sinking Fund – The District's Sinking Fund 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.

Bond Fund – The District's Bond 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.

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 formula trust agreement, either a private purpose trust fund or a permanent fund is used.

The terms "permanent" and "private purpose" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

The District's Fiduciary Funds have been excluded from the government-wide financial statements.

Agency Fund – The District's Agency Fund is utilized to account for assets that the District holds on behalf of others as their agent and do not involve the measurement of results of operations.

Account Groups

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the governmental column in the government-wide statement of net assets.

C. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when the payment is due.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

Property taxes and interest and certain state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports deferred revenues on its balance sheet. Deferred revenues arise when resources are received by the District before it has a legal claim to them or do not meet the criteria for the recognition of revenue. The District has recorded deferred revenues in the General Fund, the Special Revenue Fund, and the Debt Service Fund for property taxes, which are not collected within 60 days of year-end. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

D. Budgets and Budgetary Accounting

A budget is legally adopted by the Board of Education for the General Fund, Building Fund, Child Nutrition Fund, Sinking Fund, and the Bond Fund, that includes revenues and expenditures. These budgets are prepared on a modified accrual basis of accounting. Budgetary control is maintained by fund, function, and activity and budgeted expenditures may not exceed appropriations at the fund level. Amendments may be made to the budget without approval by the governing body at the function and activity levels. Fund level budgetary amendments require approval of the governing body.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable fund balance – is utilized in all governmental funds of the District. Appropriations which are not spent lapse at the end of the fiscal year and encumbrances are reversed. On the first day of the following fiscal year, the encumbrances are reinstated and the expenditures are applied against the year's budget.

E. Net Assets

The government-wide financial statements utilize a net asset presentation. Net assets are categories of investment in fixed assets (net of related debt), restricted net assets and unrestricted net assets.

Investment in Fixed Assets (net of related debt) – is intended to reflect the portion of net assets, which are associated with non-liquid capital related debt. The net related debt is debt less the outstanding liquid assets and any associated unamortized cost.

Restricted Net Assets – are assets the school district is externally or legally prohibited from using for general operating purposes.

Unrestricted Net Assets – represent unrestricted liquid assets.

Fund Balance Policy In Accordance With GASB Statement No. 54

It is the policy of the District to adopt Governmental Accounting Standards Board Statement No. 54 which defines how fund balances of the governmental funds are to be presented in the financial statements. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable Fund Balance – Amounts that are not in a spendable form such as prepaid expenses, and consumable inventories are classified as Nonspendable.

Restricted Fund Balance – Amounts designated for specific purposes by their providers such as bondholders, grantors, or imposed by law through constitutional provisions or enabling legislation. The District's Building Fund balance is restricted by statute to certain capital related costs. The District's Debt Service fund balance is restricted by law to purposes of retiring the District's long-term debt. The District's Bond Fund balance is restricted by the District voters for specific construction programs.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

Committed Fund Balance – Amounts designated for specific purposes by the District's highest level of decision-making authority (Board of Education) and cannot be used for any other purposes unless the same highest level (Board of Education) takes action to remove or change the designation. The District commits a portion of the General Fund balance in accordance with the Board of Education's minimum fund balance policy.

The District commits a portion of the Accrual Basis Fund Balance to honor the commitments made by the District for encumbrances (purchase orders) for which goods or services have not yet been received. The fund balance committed to encumbrances will be equivalent to the purchase orders rolled forward from one fiscal year to the next fiscal year.

Assigned fund Balance – Amounts the District *intends* to use for specific purposes; intent can be expressed by the governing body or by an official to which the governing body delegates the authority. The District assigns funds for education that are to be used for instruction, support services and other operating expenditures. The Superintendent and Chief Financial Officer will determine the amount of assigned fund balance at the end of each fiscal year.

Unassigned Fund Balance – This classification includes the residual fund balance of the General Fund and may be used to finance operating expenditures.

E. Assets, Liabilities and Fund Equity

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 on the aggregation of this data.

Cash – Cash consists of cash on hand, demand deposit accounts, and interest bearing checking accounts.

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.

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 costs of inventories are recorded as expenditures when encumbered and purchased, rather than when consumed.

Compensated Absences – Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources is reported as 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 non-vesting accumulating rights to receive such pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group since none of the vested sick leave is expected to be liquidated with expendable, available financial resources.

Fixed Assets – The District has not maintained a record of its general fixed assets, and, accordingly, a General Fixed Asset Account Group is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

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.

Cash Fund Balance – Cash fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

F. Assets, Liabilities and Cash Fund Balances

Cash and Cash Equivalents – The District considers all cash on hand, demand deposits and interest bearing checking accounts to be cash and cash equivalents.

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

Property Tax Revenue and Receivables – 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 the tax 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. The second half of the tax becomes 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.

Uncollected taxes assessed on valuations made each year are recorded in the District's combined financial statements. The delinquent taxes which are not collected within 60 days of year-end are recorded in the financial statements as deferred revenue. Uncollectible personal and real property taxes are deemed to be immaterial because the property can be sold for the amount of taxes due.

Inventories – Inventories are stated at cost on a first-in, first-out method. Inventories in the governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories include fuel, instructional and food service supplies. Cost of donated federal surplus commodities is based on values established by the federal government at the time of donation.

Capital Assets – Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements.

All purchased capital assets are valued at the fair market value per the District's insurance policy. Donated capital assets are valued at their fair market value on the date donated.

Assets capitalized have an original cost of \$5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and structures	15-60 years
Improvements	15-60 years
Equipment	5-15 years
Transportation equipment	5-15 years

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

Long-Term Debt – Long-term debt is recognized as a liability of the applicable governmental activities statement on net assets.

Fund Equity – Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

G. Revenue, Expenses and Expenditures

Local Revenues – Revenue from local sources is revenue produced within the school district, which includes ad valorem taxes. It is available for current educational expenses and for other purposes authorized by the school board.

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 the tax 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 year of assessment. If not paid by the following Oct. 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.

Intermediate Revenues – Revenue from intermediate sources is revenue from funds collected by an intermediate administrative unit or political sub-division, such as a county or municipality, and redistributed to the school district.

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

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

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

Federal Revenues – Revenue from Federal sources is money originating from the Federal government and made available to the school district either as direct grants or under various programs passed-through the State Department of Education.

The Federal government also makes payments to school districts whose revenues are adversely affected by the presence of Federal activities. Although these payments are made in consideration of lost property tax revenue, the Oklahoma State Department of Education advocates classifying such amounts as revenue from Federal sources.

Interfund Transactions – Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expense initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Summary of Significant Accounting Policies (continued)

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving co curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Examples of expenditures that might be included here are the activities of teacher assistant of any type (clerks, graders, teaching machines, etc.), which assist in the instructional process. The activities of tutors, translators, and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objective of instruction, community services and enterprise programs, rather than as entitles within them.

Operation of Non-Instructional Services Expenditures – Activities concerned with providing non-instructional services to students, staff, and the community.

Facilities Acquisition and Construction Services Expenditures – Consist of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvement to sites.

Other Outlays Expenditures – A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest).

Other Uses Expenditures – This includes scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditures for self-funded employee benefit programs administered either by the District or a third party administrator.

Repayment Expenditures – Repayment expenditures represent checks/warrants issued to outside agencies for refund or restricted revenue previously received for overpayments, non-qualified expenditures, and other refunds to be repaid from District funds.

2. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount 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.

3. Deposit Categories of Credit Risk

Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. The District's investment policies are governed by state statute. Permissible investments include:

1. County, municipal or school district direct debt obligations for which an ad valorem tax may be levied or bond and revenue anticipation notes, money judgments against such county, municipality or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipality or school district is a beneficiary thereof. All collateral pledged to secure public funds shall be valued at no more than market value.
2. Money market mutual funds regulated by the Securities and Exchange Commission and which investments consist of obligations of the United States, its agencies and instrumentalities, and investments in those items listed above.
3. Warrants, bonds or judgments of the school district.

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Deposit Categories of Credit Risk (continued)

4. Qualified pooled investment programs, the investments of which consist of those items specified above, as well as obligations of the United States agencies and instrumentalities, regardless of the size of the district's budget. To be qualified, a pooled investment program for school funds must be governed through an Interlocal cooperative agreement formed pursuant to Title 70 Section 5-117b, and the program must competitively select its investment advisors and other professionals. Any pooled investment program must be approved by the Board of Education.
5. Repurchase agreements that have underlying collateral consisting of those items specified in paragraphs 1 and 2 of this section including obligations of the United States, its agencies and instrumentalities, and where collateral has been deposited with a trustee of custodian bank in an irrevocable trust or escrow account established for such purposes.
6. County, municipal or school district direct debt obligations for which an ad valorem tax may be levied or bond and revenue anticipation notes, money judgments against such county, municipality or school district ordered by a court of record or bonds or bond and revenue anticipation notes issued by a public trust for which such county, municipality or school district is a beneficiary thereof. All collateral pledged to secure public funds shall be valued at no more than market value.
7. Money market mutual funds regulated by the Securities and Exchange Commission and which investments consist of obligations of the United States, its agencies and instrumentalities, and investments in those items listed above.
8. Warrants, bonds or judgments of the school district.
9. Qualified pooled investment programs, the investments of which consist of those items specified above, as well as obligations of the United States agencies and instrumentalities, regardless of the size of the district's budget. To be qualified, a pooled investment program for school funds must be governed through an Interlocal cooperative agreement formed pursuant to Title 70 Section 5-117b, and the program must competitively select its investment advisors and other professionals. Any pooled investment program must be approved by the Board of Education.

The District's investment policy instructs the treasurer to minimize risks by diversifying the investment portfolio; structuring investments so that securities mature in time to meet cash requirements; and by investing the full amount of all accounts of the District.

Custodial Credit Risk:

Deposits and Investments - The District's demand deposits are required by law to be collateralized by the amount that is not federally insured.

Securities pledged as collateral are held by a third party or Federal Reserve Bank. Joint custody safekeeping receipts are held in the name of the depositing institution, but are pledged to the District. The security cannot be released, substituted, or sold without the School Treasurer's approval and release of the security.

Certificates of deposit are collateralized at least by the amount not federally insured. As of June 30, 2012, the District had no deposits exposed to custodial credit risk.

Interest Rate Risk:

Investments are made based upon prevailing market conditions at the time of the transaction with the intent to hold the instrument until maturity. However, the District has no formal written policy addressing interest rate risk.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Deposit Categories of Credit Risk (continued)

Credit Risk:

The District has no formal written policy addressing credit risk.

At June 30, 2012, the District has no investments that are not guaranteed by the full faith and credit of the United States Government.

4. General Long-Term Debt

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

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

A brief description of the outstanding general obligation bond issues at June 30, 2012, is set forth below:

	<u>Amount Outstanding</u>
School District No. I-16 Building Bonds, Series 2011, original issue \$460,000.00, interest rate of 1.10%, first and only installment of \$460,000.00, due on June 1, 2013.	\$ 460,000.00
School District No. I-16 Building Bonds, Series 2009, original issue \$100,000.00, average interest rate of 3.00%, first installment of \$25,000.00 due on May 1, 2011, and annual installments of \$25,000.00 due thereafter, final payment of \$25,000.00 due on May 1, 2014.	50,000.00
School District No. I-16 Building Bonds, Series 2010, original issue \$200,000.00, average interest rate of 2.59%, first installment of \$50,000.00 due on June 1, 2012, and annual installments of \$50,000.00 due thereafter, final payment of \$50,000.00 due on June 1, 2015.	150,000.00
Total Bonds Outstanding	\$ 660,000.00

The annual debt service requirements for retirement of bond principal and payment of interest are as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$ 535,000.00	\$ 10,235.00	\$ 545,235.00
2014	75,000.00	3,375.00	78,375.00
2015	50,000.00	1,450.00	51,450.00
Total	\$ 660,000.00	\$ 15,060.00	\$ 675,060.00

Interest expense incurred on general long-term debt during the current year totaled \$12,485.00.

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

General Long-Term Debt (continued)

Lease Commitments

In June 2007, the School District entered into agreements to finance building an elementary school through a technique referred to as "conduit financing." Conduit financing involves the use of a public trust, which issues conduit debt obligations (limited-obligations revenue bonds, certificates of participation, or similar debt instruments) for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. The public trust has no obligation for such debt beyond the resources provided by a lease or loan with the third party, on whose behalf the debt is issued.

The School District entered into a Ground Lease Agreement with Salina Educational Facilities Authority, a public trust organized under the laws of the State of Oklahoma, for certain equipment, building renovations and remodels for certain real property owned by the District. The Ground Lease Agreement was made to facilitate the issuance of \$2,020,000.00 in revenue bonds by the Authority to provide funds to build and equip a new elementary school building.

The School District entered into a sublease Agreement with Salina Educational Facilities Authority in June 2007, wherein the real property subject to the Ground Lease mentioned in the previous paragraph is subleased to the school district to enable the District to utilize proceeds of the \$2,020,000.00 revenue bonds issued by Salina Educational Facilities Authority, for the renovation and improvements on the real property and to provide a method for the District to obtain title to the property and improvements.

The Sublease Agreement can be terminated by the District at the end of each fiscal year. The District has the option to extend sublease terms for successive on-year periods until such time the Authority's indebtedness is retired, by affirmative action of the Board of Education each fiscal year.

The following schedule presents future rental and acquisition payments due under the sub-lease agreement with Salina Educational Facilities Authority.

Year ending June 30,	Principal	Interest	Total
2013	\$ 432,045.47	\$ 18,104.53	\$ 450,150.00
2014	0.00	0.00	0.00
2015	422,515.23	27,634.77	450,150.00
2016	940,928.91	19,071.09	960,000.00
Total	\$ 1,795,489.61	\$ 64,810.39	\$ 1,860,300.00

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2012:

	Bonds Payable	Lease Payable	Total Payable
Balance, July 1, 2011	\$ 735,000.00	\$ 1,870,588.61	\$ 2,605,588.61
Additions	\$ 0.00	\$ 0.00	\$ 0.00
Retirements	\$ 75,000.00	\$ 75,099.00	\$ 150,099.00
Balance, June 30, 2012	\$ 660,000.00	\$ 1,795,489.61	\$ 2,455,489.61

The above leases contain a clause that gives the District the ability to terminate the lease agreements at the end of each fiscal year. The District has recorded the liability for future lease payments in the General Long Term Debt Account Group.

The lease payments are appropriated annually from school district funds.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

5. Employee Retirement System

Description of Plan

The System is a qualified governmental defined benefit retirement plan. For GASB purposes it is a cost-sharing multiple-employer Public Employee Retirement System. The supervising authority for the management and operation of the System is a 13-member Board of Trustees, which acts as a fiduciary for investment of the funds and the application of plan interpretations.

The System provides retirement and disability benefits, annual cost of living adjustments, death benefits and other benefits to plan members and beneficiaries. Oklahoma State Statutes establish 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. The report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, Oklahoma 73152.

Basis of Accounting

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements have also been prepared in compliance with the requirements of the Government Accounting Standards Board Statement No. 34. The financial statements are prepared on the accrual basis of accounting, under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period they are earned and become measurable, and investment purchases and sales are recorded as of their trade dates. Member and employer contributions are recognized when due, pursuant to formal commitments. Benefits and refunds are recognized when due and payable.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. 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, 2012, is as follows:

		<u>Dollars in Millions</u>
Actuarial Accrued Liability	\$	18,588
Actuarial Value of Assets		<u>10,190</u>
Unfunded Actuarial Accrued Liability	\$	<u>8,398</u>

Funding Policy

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two (62) or with reduced benefits as early as age fifty-five (55). The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years of contributory service multiplied by the number of years of credited service. Retiring members may count up to 120 days of unused accumulated sick leave toward an additional year of service credit. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The employers' contribution rate is 9.5%. Employees contribute 7.0% of covered compensation.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Employee Retirement System (continued)

Annual Pension Cost

The District's total contribution for 2012, 2011 and 2010 were \$384,769.36, \$305,637.04 and \$316,244.00, respectively. The District's total payroll for fiscal year 2011-12 amounted to \$3,842,038.79.

6. Capital Assets

A summary of changes in general fixed assets for the year ended June 30, 2012, follows:

	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2012</u>
Land	\$ 198,292.00	\$ -	\$ -	\$ 198,292.00
Total Assets Not Being Depreciated	\$ 198,292.00	\$ -	\$ -	\$ 198,292.00
Building & Improvements	\$ 17,797,104.57	\$ -	\$ -	\$ 17,797,104.57
Machinery & Equipment	160,708.06	-	-	160,708.06
Vehicles	735,251.69	-	-	735,251.69
Total Capital Assets Being Depreciated	18,693,064.32	-	-	18,693,064.32
Less:				
Accumulated Depreciation	9,543,447.80	357,037.53	-	9,900,485.33
Total Capital Assets Being Depreciated - Net	9,149,616.52	(357,037.53)	-	8,792,578.99
Total Capital Assets - Net	\$ 9,347,908.52	\$ (357,037.53)	\$ -	\$ 8,990,870.99

7. Litigation

The District is contingently liable for lawsuits and other claims in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would require appropriation of revenues yet to be realized, and would not materially affect the financial position of the District at June 30, 2012.

8. 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 also participates in a risk pool for Workers' Compensation coverage in which there is 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.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

Risk Management (continued)

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.

The District participates in the Oklahoma Public Schools Unemployment Compensation Account under the sponsorship of the Oklahoma State School Boards Association and the cooperative council for Oklahoma School Administration. The account was established to let school districts self-insure unemployment benefits for school employees. The funds are held in the name of each school district as reserves to pay unemployment claims. Each school district is individually liable for that portion of the benefits paid from the fund attributable to wages paid by the school district in the same manner as if no group account had been established. The reserve funds may be withdrawn from the account upon request of the school district. At June 30, 2012, the Salina School District had reserves on deposit with the Oklahoma Public Schools Unemployment Compensation Accounting totaling \$9,856.56. This amount has been included in the District's balance sheet as prepaid insurance at June 30, 2012.

9. Surety Bonds

The deputy treasurer is bonded by Western Surety, bond number 69751957, for the penal sum of \$100,000.00 for the term of July 21, 2011, to July 21, 2012.

The treasurer, minute clerk/encumbrance clerk, and activity fund custodian is bonded by RLI Insurance, bond number RSB4016040, for the penal sum of \$100,000.00 for the term of March 28, 2011, to March 28, 2012.

The superintendent is bonded by Western Surety, bond number 18183530, for the penal sum of \$100,000.00 for the term of June 5, 2011, to June 5, 2012.

10. Accounts Receivable

Receivables consist of all revenues earned at year end and not yet received. Ad valorem tax collectable, but not available are deferred in the fund financial statements in accordance with the modified accrual basis of accounting, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. The District had the following receivables at June 30, 2012:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Sinking Fund</u>
Ad Valorem Tax	\$ 41,005.64	\$ 5,859.55	\$ 22,795.50
Due from other gov't's	329,900.14	-	-
Total – Accrual Basis	<u>371,400.78</u>	<u>5,859.55</u>	<u>22,795.50</u>
Less: Deferred Revenue	<u>(31,519.48)</u>	<u>(4,503.98)</u>	<u>(17,379.72)</u>
Total – Receivables - net	<u>\$ 339,831.30</u>	<u>\$ 1,355.57</u>	<u>\$ 5,415.78</u>

REQUIRED SUPPLEMENTARY INFORMATION

SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Local	\$ 543,224.47	\$ 543,224.47	\$ 587,208.72	\$ 43,984.25
Intermediate sources	122,646.43	122,646.43	136,844.74	14,198.31
State sources	4,137,718.13	4,137,718.13	4,303,842.96	166,124.83
Federal sources	1,221,432.89	1,221,432.89	1,303,471.99	82,039.10
	\$ 6,025,021.92	\$ 6,025,021.92	\$ 6,331,368.41	\$ 306,346.49
Expenditures:				
Instructional	\$ 4,955,012.62	\$ 4,955,012.62	\$ 3,900,698.90	\$ 1,054,313.72
Support services:	-	-	1,855,863.31	
Students	191,469.41	191,469.41	416,707.23	(225,237.82)
Staff	187,174.73	187,174.73	-	187,174.73
General administration	221,860.57	221,860.57	-	221,860.57
School administration	323,107.94	323,107.94	-	323,107.94
Business	155,204.42	155,204.42	-	155,204.42
Plant operations	537,869.07	537,869.07	-	537,869.07
Transportation	234,419.52	234,419.52	-	234,419.52
Other outlays	1,629.54	1,629.54	1,629.54	-
Other Uses	416,707.23	416,707.23	-	416,707.23
Repayments	4,615.75	4,615.75	4,615.75	-
	\$ 7,229,070.80	\$ 7,229,070.80	\$ 6,179,514.73	\$ 2,905,419.38
Excess of revenues over (under) expenditures	\$ (1,204,048.88)	\$ (1,204,048.88)	\$ 151,853.68	\$ 3,211,765.87
Other sources of funds - Cancelled warrants	\$ -	\$ -	\$ -	\$ -
Excess of revenues and other sources of funds over (under) expenditures	\$ (1,204,048.88)	\$ (1,204,048.88)	\$ 151,853.68	\$ 1,355,902.56
Fund balance, beginning of year	\$ 1,204,048.88	\$ 1,204,048.88	\$ 1,204,048.88	\$ -
Fund balance, end of year	\$ -	\$ -	\$ 1,355,902.56	\$ 1,355,902.56
Adjustments to conform with GAAP				
Receivables at year end			339,386.30	
Expenses not recognized in GAAP			9,856.56	
Fund balance, end of year (GAAP basis)			\$ 1,705,145.42	

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

SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
BUILDING FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Local	\$ 122,677.22	\$ 122,677.22	\$ 133,357.31	\$ 10,680.09
Intermediate sources	-	-	-	-
State sources	-	-	-	-
Federal sources	-	-	166,553.80	166,553.80
	\$ 122,677.22	\$ 122,677.22	\$ 299,911.11	\$ 177,233.89
Total revenues				
Expenditures:				
Instructional	\$ -	\$ -	\$ -	\$ -
Support services:	-	-	-	-
Students	-	-	-	-
Staff	-	-	-	-
General administration	15,000.00	15,000.00	15,000.00	-
School administration	-	-	-	-
Business	-	-	-	-
Plant operations	394,002.61	394,002.61	264,784.45	129,218.16
Transportation	-	-	-	-
Central	-	-	-	-
Other	-	-	-	-
Child nutrition	625.00	625.00	625.00	-
Noninstructional	-	-	-	-
Capital outlay	-	-	-	-
Other outlays	-	-	-	-
	\$ 409,627.61	\$ 409,627.61	\$ 280,409.45	\$ 129,218.16
Total expenditures				
Excess of revenues over (under) expenditures	\$ (286,950.39)	\$ (286,950.39)	\$ 19,501.66	\$ 306,452.05
Other sources of funds - Cancelled warrants	\$ -	\$ -	\$ -	\$ -
Excess of revenues and other sources of funds over (under) expenditures	\$ (286,950.39)	\$ (286,950.39)	\$ 19,501.66	\$ 306,452.05
Fund balance, beginning of year	\$ 286,950.39	\$ 286,950.39	\$ 286,950.39	\$ -
Fund balance, end of year	\$ -	\$ -	\$ 306,452.05	\$ 306,452.05
Adjustments to conform with GAAP			1,355.57	
Receivables at year end			1,355.57	
Fund balance, end of year (GAAP basis)			307,807.62	

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

OTHER SUPPORTING INFORMATION

**SALINA SCHOOL DISTRICT NO. I-16
STATEMENT OF NET ASSETS - FIDUCIARY FUND
JUNE 30, 2012**

		<u>Agency Fund</u>
		<u>Activity Fund</u>
ASSETS		
Cash	\$	93,444.36
Receivables:		
Miscellaneous		<u>-</u>
Total assets	\$	<u><u>93,444.36</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups	\$	93,444.36
Accounts payable		<u>-</u>
Total liabilities	\$	<u>93,444.36</u>
 Net Assets		
Unreserved	\$	<u>-</u>
Total net assets		<u>-</u>
Total liabilities and net assets	\$	<u><u>93,444.36</u></u>

**SALINA SCHOOL DISTRICT NO. I-16
SCHOOL ACTIVITY FUND
RECEIPTS, TRANSFERS, DISBURSEMENTS AND SUB-ACCOUNT BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

Activities	Balance 7-1-11	Deposited	Net Transfers/ Adjustments	Disbursed	Balance 6-30-12
Athletics	\$ 9,737.46	\$ 82,377.09	\$ 1,392.05	\$ 77,944.27	\$ 15,562.33
Miscellaneous	9,924.02	7,838.16	(548.00)	7,392.14	9,822.04
High School	3,991.94	17,396.83	89.25	15,395.93	6,082.09
Senior Class	89.25	341.93	1,910.75	2,341.93	-
Junior Class	3,392.05	32,490.93	(3,392.05)	30,490.93	2,000.00
FCCLA	325.20	1,574.63	-	1,386.54	513.29
FFA	16,729.60	9,814.02	-	22,250.38	4,293.24
Robotics	923.20	738.00	-	700.00	961.20
NHS	1,132.72	1,983.75	-	2,082.80	1,033.67
Yearbook	8,178.74	16,483.74	-	13,642.94	11,019.54
JH Cheerleaders	416.93	2,676.25	-	840.47	2,252.71
HS Cheerleaders	1,813.71	6,781.43	-	7,463.26	1,131.88
Band	178.98	805.00	-	56.38	927.60
TSA	10,318.31	11,696.59	548.00	10,941.64	11,621.26
Volleyball	2,410.96	5,319.94	-	5,378.90	2,352.00
Alt Ed Students	325.17	100.00	-	133.86	291.31
Elementary School	4,250.46	4,969.92	-	4,597.70	4,622.68
IIA	49.09	-	(49.09)	-	-
Newspaper	136.13	635.50	-	687.16	84.47
Middle School	1,892.09	1,907.69	49.09	2,088.82	1,760.05
HS Scholarship	-	2,500.00	-	2,500.00	-
Pre-K	682.70	1,650.51	-	1,103.58	1,229.63
Kindergarten	1,766.54	4,795.30	-	5,542.66	1,019.18
1st Grade	910.11	6,031.00	-	5,479.95	1,461.16
2nd Grade	2,577.97	10,605.00	-	9,178.11	4,004.86
3rd Grade	1,615.02	10,480.00	-	9,865.08	2,229.94
4th Grade	900.33	4,620.06	-	3,664.45	1,855.94
Special Teachers	1,402.84	837.63	-	1,362.93	877.54
Elementary School	1,298.80	6,220.78	-	6,834.07	685.51
5th Grade	153.65	5,434.21	-	4,538.74	1,049.12
6th Grade	823.09	329.50	-	1,016.92	135.67
7th Grade	60.46	1,006.00	-	620.10	446.36
8th Grade	47.34	745.00	-	745.00	47.34
MS & HS Library	264.62	6,236.01	-	6,323.00	177.63
MS Science	375.78	-	-	375.78	-
MS Student Council	423.35	-	-	319.79	103.56
MS Academic Team	443.62	-	-	220.18	223.44
Maintenance	937.31	489.87	-	253.17	1,174.01
HS Book Club	81.59	4,203.79	-	4,093.27	192.11
MS Special Ed	235.35	-	-	235.35	-
Ice Cream	71.05	3,228.69	-	3,299.74	-
HS Science Club	200.00	-	-	-	200.00
Total Activities	\$ 91,487.53	\$ 275,344.75	\$ -	\$ 273,387.92	\$ 93,444.36

SUPPORTING SCHEDULE

**SALINA SCHOOL DISTRICT NO. I-16
SCHEDULE OF FEDERAL AWARDS EXPENDED
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Grantor's Number	Balance at July 1, 2011	Receipts	Expenditures	Balance at June 30, 2012
U.S. Department of Education						
Direct Programs:						
2011-2012 Programs						
Impact Aid	84.041	S041B2124714	\$ -	\$ 177,569.80	\$ 177,569.80	\$ -
Title VII, Indian Education	84.060A	S060A111081	-	86,302.00	86,302.00	-
Sub-Total			\$ -	\$ 263,871.80	\$ 263,871.80	\$ -
Passed-Through State Department of Education:						
2011-2012 Programs						
• Title I	84.010	N/A	\$ -	\$ 255,195.63	\$ 255,195.63	\$ -
• IDEA-B Flow Through	84.027	N/A	-	204,596.08	204,596.08	-
• IDEA-B Preschool	84.173	N/A	-	5,149.32	5,149.32	-
Rural and Low Income	84.358B	N/A	-	18,166.34	18,166.34	-
Title II, Part A Training & Recruiting Fund	84.367	N/A	-	48,377.20	48,377.20	-
Title IV 21st Century Community Learning Ctr.	84.287	N/A	-	200,000.00	200,000.00	-
• Education Jobs Fund	84.410	N/A	-	67,709.17	67,709.17	-
Sub-Total			\$ -	\$ 799,193.74	\$ 799,193.74	\$ -
Passed- Through State Department of Rehabilitation						
2011-2012 Programs						
Job Training - OJT	84.126	N/A	\$ -	\$ 6,712.50	\$ 6,357.25	\$ 355.25
Sub-Total			\$ -	\$ 6,712.50	\$ 6,357.25	\$ 355.25
Passed-Through State Department of Career and Technology Education:						
2011-2012 Programs						
Carl Perkins	84.048	N/A	\$ -	\$ 21,324.00	\$ 21,324.00	\$ -
Sub-Total			\$ -	\$ 21,324.00	\$ 21,324.00	\$ -
U. S. Department of Agriculture						
Passed-Through State Department of Education:						
Child Nutrition Cluster:						
Non-Cash Assistance (Commodities):						
• National School Lunch Program	10.555	N/A	\$ -	\$ 19,324.51	\$ 19,324.51	\$ -
Non-Cash Assistance Sub-Total			\$ -	\$ 19,324.51	\$ 19,324.51	\$ -
Cash Assistance:						
• School Breakfast Program	10.553	N/A	\$ -	\$ 94,135.91	\$ 94,135.91	\$ -
• National School Lunch Program	10.555	N/A	-	288,799.90	288,799.90	-
• Summer Food Service Program for Children	10.559	N/A	-	4,894.95	1,030.93	3,864.02
Cash Assistance Sub- Total			\$ -	\$ 385,830.76	\$ 381,966.74	\$ 3,864.02
Sub-Total for Child Nutrition Cluster			\$ -	\$ 405,155.27	\$ 401,291.25	\$ 3,864.02

The accompanying notes are an integral part of this schedule.

(continued)

SALINA SCHOOL DISTRICT NO. 1-18
 SCHEDULE OF FEDERAL AWARDS EXPENDED
 FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA #	Grantor's Number	Balance at July 1, 2011	Receipts	Expenditures	Balance at June 30, 2012
Other Federal Assistance:						
2011-2012 Programs	12.112	N/A	-	1,459.88	1,459.88	-
Flood Control			-	1,459.88	1,459.88	-
Sub-Total			-	1,497,717.19	1,493,497.92	4,219.27
TOTAL FEDERAL ASSISTANCE			-	1,497,717.19	1,493,497.92	4,219.27

* Major program

The accompanying notes are an integral part of this schedule.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

1. For all federal programs, the District uses the fund types prescribed by the Oklahoma State Department of Education. The District conforms with the accounting principles generally accepted in the United States of America. General and Building Funds are used to account for resources restricted, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in the General and Building Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial measurement focus. All federal grant funds were accounted for in the General and Building Funds.. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The Modified Accrual Basis of Accounting is used for the Governmental Fund types and revenues are recognized as soon as they are both measurable and available. Expenditures are recorded when a liability is incurred.

3. Positive amounts listed in the either "Balance at July 1, 2011" or "Balance at June 30, 2012" column represent funds received by the school and not yet expended or coded to the program. Negative amounts represent expenditures which have been claimed, but the revenue not yet collected.
4. Commodities from the US Department of Agriculture are non-monetary federal assistance and has been reported in the schedule at the fair market value of the commodities received and disbursed.

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

KERRY JOHN PATTEN, C.P.A.

2101 N. Willow Ave.
Broken Arrow, OK 74012
Phone Number (918) 250-8838
FAX Number (918) 250-9853



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Board of Education
Salina School District No. I-16
Mayes County, Oklahoma

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salina School District No. I-16 (the "District"), Salina, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise Salina School District's basic financial statements and have issued my report thereon March 8, 2013. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States..

Internal Control Over Financial Reporting

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

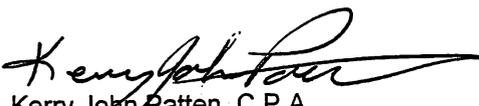
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the Schedule of Findings and Questioned Costs to be material weaknesses (2012-1 & 2012-2).

My consideration of the 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. However, as described in the Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

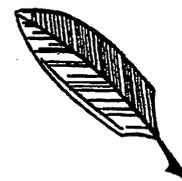
As part of obtaining reasonable assurance about whether Salina School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. I noted certain immaterial instances of noncompliance that I have reported to management in the "Schedule of Comments" on pages 35 & 36 of this report.

This report is intended solely for the information and use of the audit committee, management 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.


Kerry John Patten, C.P.A.
March 8, 2013

KERRY JOHN PATTEN, C.P.A.

2101 N. Willow Ave.
Broken Arrow, OK 74012
Phone Number (918) 250-8838
FAX Number (918) 250-9853



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

The Honorable Board of Education
Salina School District No. I-16
Mayes County, Oklahoma

Compliance

I have audited Salina School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the Summary of Audit 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 Salina School District's management. My responsibility is to express an opinion on Salina School District's compliance based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Salina School District's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Salina School District's compliance with those requirements.

In my opinion, Salina School District complied, in all material respects, with the compliance 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, 2012.

Internal Control Over Compliance

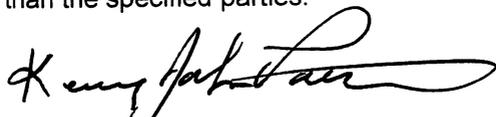
Management of Salina School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Salina School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *deficiency in internal control over compliance* 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 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.

Internal Control over Compliance
Page 2

My 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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. I noted no matters involving the internal control over compliance and its operation that I considered to be material weaknesses, as defined above.

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



Kerry John Patten, CPA
March 8, 2013

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a qualified opinion on the basic financial statements of Salina School District.
2. There were two audit findings reported of deficiencies in internal control, which the auditor considers to be "material weaknesses" as defined in A.I.C.P.A. standards.
3. No instances of noncompliance material to the financial statements of Salina School District, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. There were no audit findings reported of deficiencies in internal control over major programs, which the auditor considers to be "significant deficiencies" as defined by A.I.C.P.A. standards.
5. The auditor's report on compliance for the major federal award programs for Salina School District expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with OMB Circular A-133 relative to major federal award programs for Salina School District.
7. The programs tested as major programs included: Title I (84.010), IDEA-B Cluster (84.027 & 84.173), Education Jobs (84.410), and Child Nutrition Cluster (10.555, 10.553, & 10.559).
8. The threshold for distinguishing Types A and B programs was \$300,000.00.
9. Salina School District did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-1

Criteria: The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The District has historically relied on its independent auditor to provide the necessary expertise to assist in the preparation of the financial statements and notes.

Cause: District personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from external auditors or another outside source.

Effect: As a result of this condition, without assistance from its external auditors or another outside source, the District may lack the necessary internal controls over the preparation of the financial statements in accordance with GAAP.

Recommendation: We recommend the District consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise, and education to prepare financial statements in accordance with GAAP.

Response: We concur with the recommendation; however, we have concluded that the cost to correct this condition would exceed the benefit.

(continued)

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINDINGS – FINANCIAL STATEMENTS AUDIT

2012-2

Criteria: The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the accounting records.

Condition: The District's trial balances for the year ended, required a number of material adjusting entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The District's accounting and reporting staff does not possess the necessary knowledge, expertise, and education, to provide reasonable assurance that the trial balances are complete and accurate in accordance with GAAP.

Effect: As a result of this condition, it can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit.

Recommendation: The District should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and education to apply GAAP in the development of the working trial balances.

Response: We concur with the recommendation; however, we have concluded that the cost to correct this condition would exceed the benefit.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. No matters were reported.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
SUMMARY OF PRIOR AUDIT FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

The summary of prior audit findings is required to report the status of all audit findings reported in the prior audit's schedule of findings and questioned costs relative to federal awards.

FINDINGS – FINANCIAL STATEMENTS AUDIT

2011-1

Criteria: The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP).

Condition: The District has historically relied on its independent auditor to provide the necessary expertise to assist in the preparation of the financial statements and notes.

Cause: District personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from external auditors or another outside source.

Effect: As a result of this condition, without assistance from its external auditors or another outside source, the District may lack the necessary internal controls over the preparation of the financial statements in accordance with GAAP.

Recommendation: We recommend the District consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise, and education to prepare financial statements in accordance with GAAP.

Response: We concur with the recommendation; however, we have concluded that the cost to correct this condition would exceed the benefit.

The condition also existed during the 2011-12 fiscal year.

2011-2

Criteria: The District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the accounting records.

Condition: The District's trial balances for the year ended, required a number of material adjusting entries in order for the financial statements to be prepared in accordance with GAAP.

Cause: The District's accounting and reporting staff does not possess the necessary knowledge, expertise, and education, to provide reasonable assurance that the trial balances are complete and accurate in accordance with GAAP.

Effect: As a result of this condition, it can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit.

Recommendation: The District should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and education to apply GAAP in the development of the working trial balances.

Response: We concur with the recommendation; however, we have concluded that the cost to correct this condition would exceed the benefit.

The condition also existed during the 2011-12 fiscal year.

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
SCHEDULE OF COMMENTS
JULY 1, 2011 TO JUNE 30, 2012**

The following conditions, while not representing material weaknesses in the system of internal accounting control, represent areas noted during my review of the school's accounting system in which I feel improvements in the internal control and/or operational efficiency may be attained. I have also noted, as required, any noncompliance with State Department of Education Regulations.

- I. **Condition:** Our review of the school's purchase orders noted instances in which the invoice/claim or other supporting documentation of the purchase order had not been signed by a school employee who received delivery of items purchased (or had knowledge of satisfactory completion of services rendered).

Recommendation: Oklahoma State Statutes require that each board of education prescribe and administer adequate business procedures and controls governing the ordering and delivery of merchandise. Such procedures should include a method of determining the school employee receiving delivery of each purchase. The person receiving delivery of goods or services should acknowledge satisfactory receipt by signing the delivery ticket, invoice, or school receiving report. A copy of the signed document should subsequently become an attachment to the related purchase order.

- II. **Condition:** Sponsors did not issue prenumbered receipts for their organization's collections during fiscal year 2011-12. No sponsor receipts were made available for auditor review.

Recommendation: The School Board should ensure that all activity sub-account sponsors:

1. Issue receipts in duplicate for all monies received. Receipts should be prenumbered by the printer and each receipt issued should be completely filled out showing the date, the person from whom money was received, the source or other pertinent information describing the nature of the collection, the amount (both numerical and written), and indication denoting the type of collection (i.e., cash, check, money order, etc.). Voided receipts should be marked void and left in the receipt book.
2. Record entries in a cash journal for cash purposes.
3. Deposit receipts daily with the Activity Fund Custodian, and retain their copy of receipt issued by the Custodian.
4. Periodically (at least monthly), reconcile their records with those of the School Activity Fund Custodian.

In addition, a log should be maintained indicating the sponsor/teacher name and number sequence of receipt book(s) issued to each sponsor.

- III. **Condition:** During our review of the activity fund, we noted that the District has not adopted policies or procedures related to accounting for fundraisers. It appears that the sponsors who conduct fundraisers are not keeping any sort of profit and loss, fundraiser reconciliation forms, or inventory records.

Recommendation: It is important for the sponsor of such fundraising activity to be accountable for that fundraiser. Cash controls and sales reports provide information about the profitability of each activity and controls over inventory and funds. Controls and procedures need to be developed around the two factors of all of the fundraisers: inventory and cash. Procedures established should ensure that all inventories for resale is safeguarded and accounted for, all sales are identified, and receipts are timely deposited. Profit and loss statements should be prepared on each fundraiser (or monthly if fundraiser is ongoing through the year) and presented to the school Activity Fund Custodian. Losses, or less than expected profit, should be researched and corrective action taken as needed.

(continued)

**SALINA SCHOOL DISTRICT NO. 1-16
MAYES COUNTY, OKLAHOMA
SCHEDULE OF COMMENTS
JULY 1, 2011 TO JUNE 30, 2012**

IV. Condition: The School issues some blanket purchase orders to vendors who they purchase from on a frequent basis. The blanket purchase orders are approved for a maximum amount and payments are made up to the purchase order amount. The school then increases the same purchase order if they need to make more payments to that vendor rather than closing out the original blanket purchase order and creating another purchase order for the additional amounts to be paid in excess of the original purchase order amount.

Recommendation: I recommend the District close each purchase order when completed, or when the original encumbrance has been reached. New purchase orders can then be approved for any additional expenditures as needed. I am not aware of any provisions allowing a school district to re-open purchase orders or increase the original encumbrance amounts.

I would like to express my appreciation for the courtesies and cooperation extended to us by school district administrators and employees during the course of this audit.

**SALINA SCHOOL DISTRICT NO. I-16
MAYES COUNTY, OKLAHOMA
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012**

State of Oklahoma)
County of Tulsa)

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 Salina School District for the audit year 2011-12.

Kerry John Patten, C.P.A.
AUDITING FIRM

BY *Kerry John Patten*
AUTHORIZED AGENT



Subscribed and sworn to before me on this

8 day of March, 2013

Linda Kellick
NOTARY PUBLIC

My commission expires on:

30 day of Nov., 2013