

**FINANCIAL STATEMENTS – REGULATORY BASIS  
AND REPORTS OF INDEPENDENT AUDITOR**

**MOUNDS INDEPENDENT SCHOOL DISTRICT NO. 1-5,  
CREEK COUNTY, OKLAHOMA**

**JUNE 30, 2016**

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

**BROKEN ARROW, OK**

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2016

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Dee Matthias

**SCHOOL DISTRICT TREASURER**

Rob Griffin

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
JUNE 30, 2016

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JUNE 30, 2016

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# SANDERS, BLEDSOE & HEWETT

## CERTIFIED PUBLIC ACCOUNTANTS, LLP

### INDEPENDENT AUDITOR'S REPORT

October 13, 2016

The Honorable Board of Education  
Mounds School District Number I-005  
Mounds, Creek County, Oklahoma

#### **Report on the Financial Statements**

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Mounds School District Number I-005, Mounds, Creek County, Oklahoma (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education to meet financial reporting requirements of the State of Oklahoma; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

As discussed in Note 1, the financial statements are prepared by the District, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determined, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

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

### **Qualified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2016, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis, and is also not a required part of the basic financial statements.

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

### **Other Reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2016 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

Broken Arrow, OK

October 13, 2016



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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**

October 13, 2016

The Honorable Board of Education  
Mounds School District Number I-005  
Mounds, Creek County, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Mounds School District Number I-005, Mounds, Creek County, Oklahoma (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 30, 2016, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

### **Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

Broken Arrow, OK

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND  
MATERIAL INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2016

There were no prior year significant deficiencies.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2016

**Section 1** – Summary of Auditor’s Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and a qualified opinion was issued for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

**Section 2** – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2016

	GOVERNMENTAL FUND TYPES				FIDUCIARY	ACCOUNT	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST & AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>							
Cash	\$ 1,181,018	32,156	54,115	586,442	105,563		1,959,294
Investments	140,773		120,000				260,773
Amounts available in debt service						174,115	174,115
Amount to be provided for retirement of long-term debt						1,865,702	1,865,702
Total Assets	<u>\$ 1,321,791</u>	<u>32,156</u>	<u>174,115</u>	<u>586,442</u>	<u>105,563</u>	<u>2,039,817</u>	<u>4,259,884</u>
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Warrants payable	\$ 460,988	3,983					464,971
Reserved encumbrances	7,353	4,138					11,491
Funds held for school organizations					105,563		105,563
Long-term debt:							
Bonds payable						1,315,000	1,315,000
Capital leases						724,817	724,817
Total liabilities	<u>468,341</u>	<u>8,121</u>	<u>0</u>	<u>0</u>	<u>105,563</u>	<u>2,039,817</u>	<u>2,621,842</u>
Fund Balance:							
Restricted		24,035	174,115	586,442			784,592
Unassigned	853,450						853,450
Fund Balance	<u>853,450</u>	<u>24,035</u>	<u>174,115</u>	<u>586,442</u>	<u>0</u>	<u>0</u>	<u>1,638,042</u>
Total Liabilities and Fund Balance	<u>\$ 1,321,791</u>	<u>32,156</u>	<u>174,115</u>	<u>586,442</u>	<u>105,563</u>	<u>2,039,817</u>	<u>4,259,884</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES  
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	
Revenues Collected:					
Local sources	\$ 631,847	80,336	487,347		1,199,530
Intermediate sources	91,069				91,069
State sources	2,699,744				2,699,744
Federal sources	681,044				681,044
Interest earnings	7,074		97		7,171
Non-revenue receipts	3,092				3,092
Total revenues collected	<u>4,113,870</u>	<u>80,336</u>	<u>487,444</u>	<u>0</u>	<u>4,681,650</u>
Expenditures:					
Instruction	2,247,658				2,247,658
Support services	1,484,548	108,099			1,592,647
Operation of non-instructional services	299,022	680			299,702
Facilities acquisition & construction services	780	18,500		178,747	198,027
Other outlays:					
Reimbursements	2,987				2,987
Correcting entry	106				106
Debt service requirements			540,993		540,993
Total expenditures	<u>4,035,101</u>	<u>127,279</u>	<u>540,993</u>	<u>178,747</u>	<u>4,882,120</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	78,769	(46,943)	(53,549)	(178,747)	(200,470)
Other financing sources (uses):					
Bond sale proceeds				465,000	465,000
Adjustments to prior year encumbrances	9,463	856			10,319
Total other financing sources (uses)	<u>9,463</u>	<u>856</u>	<u>0</u>	<u>465,000</u>	<u>475,319</u>
Excess of revenues collected over (under) expenditures	88,232	(46,087)	(53,549)	286,253	274,849
Cash fund balances, beginning of year	<u>765,218</u>	<u>70,122</u>	<u>227,664</u>	<u>300,189</u>	<u>1,363,193</u>
Cash fund balances, end of year	<u>\$ 853,450</u>	<u>24,035</u>	<u>174,115</u>	<u>586,442</u>	<u>1,638,042</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 590,571	631,847	41,276
Intermediate sources	90,158	91,069	911
State sources	2,764,153	2,699,744	(64,409)
Federal sources	362,236	681,044	318,808
Interest earnings		7,074	7,074
Non-revenue receipts		3,092	3,092
Total revenues collected	3,807,118	4,113,870	306,752
Expenditures:			
Instruction	2,784,893	2,247,658	537,235
Support services	1,484,548	1,484,548	
Operation of non-Instruction	299,022	299,022	
Facilities acquisition & construction services	780	780	
Other Outlays:			
Reimbursement	2,987	2,987	
Correcting entry	106	106	
Total expenditures	4,572,336	4,035,101	537,235
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(765,218)	78,769	843,987
Adjustments to prior year encumbrances	0	9,463	9,463
Excess of revenue collected over (under) expenditures	(765,218)	88,232	853,450
Cash fund balance, beginning of year	765,218	765,218	0
Cash fund balance, end of year	\$ 0	853,450	853,450

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS (BUILDING FUND)		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 78,682	80,336	1,654
Non revenue receipts			0
Total revenues collected	78,682	80,336	1,654
Expenditures:			
Support services		108,099	(108,099)
Operation of non-instructional services		680	(680)
Facilities acquisition and construction services		18,500	(18,500)
Unbudgeted	148,804		148,804
Total expenditures	148,804	127,279	21,525
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(70,122)	(46,943)	23,179
Adjustments to prior year encumbrances	0	856	856
Excess of revenue collected over (under) expenditures	(70,122)	(46,087)	24,035
Cash fund balances, beginning of year	70,122	70,122	0
Cash fund balances, end of year	\$ 0	24,035	24,035

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 479,557	487,347	7,790
Interest earnings		97	97
Total revenues collected	479,557	487,444	7,887
Requirements:			
Bonds	457,000	525,000	(68,000)
Coupons	15,390	15,993	(603)
Total requirements	472,390	540,993	(68,603)
Excess of revenue collected over (under) expenditures	7,167	(53,549)	(60,716)
Cash fund balance, beginning of year	227,664	227,664	0
Cash fund balance, end of year	\$ (3,765)	174,115	(60,716)

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Mounds Public Schools Independent District No. I-5 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**B. Fund Accounting**

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

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

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

**Governmental Fund Types**

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

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. The general fund includes federal and state restricted monies that must be expended for specific programs.

Special Revenue Funds – Special revenue funds include the District’s building, co-op (not used), and child nutrition (not used) funds.

Building Fund – The building fund consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing, or maintaining school buildings and for purchasing furniture, equipment and computer software to be used on or for school district property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire and casualty insurance premiums for school facilities, for purchasing security systems, and for paying salaries of security personnel.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

B. Fund Accounting - cont'd

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

Debt Service Fund – The debt service fund is the District’s sinking fund and is used to account for the accumulation of financial resources for the payment of general long-term (including judgments) debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

Capital Projects Fund – The capital projects fund is the District’s bond fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school 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. The terms “non-expendable” and “expendable” refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintained any expendable trust funds during the 2015-16 school year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

Medical Insurance Fund – The medical insurance fund accounts for revenues and expenditures for all types of self-funded medical insurance coverage.

Workers Compensation Fund – The workers compensation fund accounts for revenues and expenditures for workers compensation claims.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

B. Fund Accounting – cont’d

Insurance Recovery Fund – The insurance recovery fund accounts for all types of insurance recoveries, major reimbursements and reserves for property repairs and replacements.

Agency Fund – The agency fund is the school activities fund which is used to account for monies collected principally through the fundraising efforts of students and District-sponsored groups. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds.

**Account Groups**

An account group is not a fund and consists of a self-balancing set of accounts used only to establish accounting control over long-term debt and fixed assets.

General Long-Term Debt Account Group – This account group is established to account for all the long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for other liabilities (judgments and lease purchases) which are to be paid from funds provided in future years.

General Fixed Assets Account Group – This account group is used by governments to account for the property, plant and equipment of the school district. The District does not have the necessary detailed information to show this fund.

**Memorandum Only - Total Column**

The total column on the combined financial statements – regulatory basis is captioned “memorandum only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reports in the combined financial statements – regulatory basis. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

C. Basis of Accounting – cont'd

All governmental and expendable trust funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned. Under the regulatory basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from generally accepted accounting principles. Significant differences are as follows:

The District does not maintain its accounts on the modified accrual basis of accounting under which revenues are recorded when susceptible to accrual, i.e., both measurable and available, and expenditures are recorded when the liability is incurred, if measurable.

Revenues and expenditures are reported by the budget year until all encumbrances have been paid and unexpended appropriations are closed to the current year fund balance.

The general, building and child nutrition funds record purchases of supplies as expenditures rather than as assets to be expensed when used.

Encumbrances are reported as liabilities. Under generally accepted accounting principles, open encumbrances for which goods or services have not been received are reported as reservations of fund balances, since the commitments will be honored through subsequent year's budget appropriations.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is not reported as an expenditure and a fund liability of the governmental fund that will pay it. In addition, the non-current portion of vested accumulated vacation is not recorded in the general long-term debt account group.

Capital leases are recorded as expenditures. Under generally accepted accounting principles, capital leases are normally capitalized as a fixed asset and recorded in the general long-term debt account group.

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**D. Budgets and Budgetary Accounting – cont'd**

the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

**E. Assets, Liabilities and Fund Equity**

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

Investments – The District is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2016, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is not presented in the financial statements.

Warrants Payable – Warrants are issued to meet the obligations for goods and services provided to the District. The District recognizes a liability for the amount of outstanding warrants that have yet to be redeemed by the District's treasurer.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

E. Assets, Liabilities and Fund Equity – cont’d

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

Unmatured Obligations – The unmatured obligations represent the total of all annual accruals for both principal and interest, based on the lengths of the bonds and/or judgments, less all principal and interest payments through the balance sheet date in accordance with the regulatory basis of accounting.

Funds Held for School Organizations – Funds held for school organizations represent the funds received or collected from students or other cocurricular and extracurricular activities conducted in the District, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

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 orders, legal contracts, outstanding warrants and un-matured obligations.

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. 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. These property taxes are distributed to the District’s general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

F. Revenue and Expenditures – cont'd

county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made in a timely manner, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1, of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

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

State Revenues – Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school 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 from or additions to the revenue of the year when the adjustment is made.

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

The aforementioned state revenues are apportioned to the District's general fund.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

F. Revenue and Expenditures – cont'd

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state.

An entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes.

The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains a separate child nutrition fund and the federal revenues received for the child nutrition programs are apportioned there.

Interest Earnings – Represent compensation for the use of financial sources over a period of time.

Non-Revenue Receipts – Non-revenue receipts represent receipts deposited into a fund that are not new revenues to the District, but the return of assets.

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. Included here are the activities of teacher assistants 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 objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

F. Revenue and Expenditures – cont'd

Facilities Acquisition and Construction Services Expenditures – Consists 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 improvements 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 overpayment, non-qualified expenditures and other refunds to be repaid from District funds.

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

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2015-16 fiscal year.

**2. CASH AND INVESTMENTS**

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks, and trust companies; and warrants, bonds or judgments of the District.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**2. CASH AND INVESTMENTS – cont'd**

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks, and trust companies; and warrants, bonds or judgments of the District.

Cash – The District's bank balance of deposits and cash pools at June 30, 2016, was \$1,930,028. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2016, the District's investments consisted of certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$259,342.

*Interest rate risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Due to the required liquidity for those investments, these funds have no defined maturity dates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

*Credit risk – Investments* – Credit risk is the risk that the issuer or other counterparty to and investment will not fulfill its obligations. Investments held by the District in investment pools (sweep accounts) are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are held with American Heritage Bank, Armstrong Bank, Citizens Security Bank, and American Century, and are rated AAA by Standard and Poor's. The District does not have a formal policy limiting its exposure arising from concentration of investments.

**3. INTERFUND RECEIVABLES AND PAYABLES**

There were no inter-fund receivables or payables at June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

**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 of the date of issue.

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2016:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2015	\$ 1,375,000	894,929	2,269,929
Additions	465,000		465,000
Retirements	(525,000)	(170,112)	(695,112)
Balance, June 30, 2016	\$ 1,315,000	724,817	2,039,817

A brief description of the outstanding long-term debt at June 30, 2016, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2012, original issue \$950,000, interest rate of 1.15% to .90%, due in annual installments of \$230,000, final payment due 6-1-17	\$ 240,000
Building Bonds, Series 2013, original issue \$140,000, interest rate of 1.10% to 1.75%, due in annual installments of \$35,000, final payment due 4-1-18	70,000

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

**4. GENERAL LONG-TERM DEBT – cont'd**

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u> (cont'd)	
Building Bonds, Series 2014, original issue \$475,000, interest rate of 1.00% to 1.20%, due in annual installments of \$120,000, final payment due 4-1-19	360,000
Building Bonds, Series 2015, original issue \$180,000, interest rate of 1.00% to 3.65%, due in annual installments of \$45,000, final payment due 4-1-20	180,000
Building Bonds, Series 2016, original issue \$465,000, interest rate of 1.50% due in annual installments of \$115,000, final payment of \$120,000 due 4-1-21	180,000
<u>Capital Leases:</u>	
Lease-purchase of equipment with Standard Capital Finance, LLC, dated February 4, 2013, totaling \$222,608, interest interest rate of 3.50%, due in annual principal and interest payments of \$26,767	163,666
Lease-purchase of leased facilities and equipment with Standard Capital Finance, LLC, dated February 1, 2010, totaling \$2,384,000, interest rate of 4.25%, due in varying annual principal and interest payments	<u>561,151</u>
Total Long-Term Debt	<u>\$ 2,039,817</u>

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

**4. GENERAL LONG-TERM DEBT – cont’d**

The annual debt service requirements for the retirement of bond principal, capital lease principal and interest are as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,022,189	39,660	1,061,849
2017	221,775	16,679	238,454
2018	302,537	13,883	316,420
2019	183,326	9,366	192,692
2020	139,142	6,150	145,292
2021-2025	<u>170,848</u>	<u>4,485</u>	<u>175,333</u>
Total	<u>\$ 2,039,817</u>	<u>90,223</u>	<u>2,130,040</u>

Interest paid on general long-term debt during the 2015-16 fiscal year totaled \$52,649.

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

Basis of Accounting

The System’s financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd**

of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2015-16 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the District at 5.12%.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2016. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

Annual Pension Cost

The District's total contributions for 2016, 2015 and 2014 were \$331,812, \$343,850, and \$354,851, respectively.

GASB Statement 68 became effective for fiscal years beginning after June 15, 2014, and significantly changes pension accounting and financial reporting for governmental employers who participate in a pension plan, such as the System, and who prepare published financial statements on an accrual basis using Generally Accepted Accounting Principles. Since the District does not prepare and present their financial statements on an accrual basis, the net pension liability amount is not required to be presented on the audited financial statements. The amount of calculated pension liability for the District at June 30, 2014 (the latest information available) was \$647,326.

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

**6. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God.

The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The District is a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

**7. CONTINGENCIES**

Federal Grants

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

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District.

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
 AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2016

	BALANCE 7-01-15	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-16
<u>ASSETS</u>					
Cash	\$ 91,798	213,219	0	199,598	105,419
<u>LIABILITIES</u>					
Funds held for school organizations:					
Petty Cash	\$ 0	200		200	0
Athletics	24,007	76,868		73,148	27,727
Band	514	9,200		9,173	541
BETA Club	944	21,794		16,201	6,537
Cheerleaders	7,377	9,574		11,042	5,909
FCCLA	1,122	4,163		4,710	575
Elementary Library	4,092	5,924		6,220	3,796
High School Library	1,121	20		91	1,050
Spanish Club	92	0		0	92
Student Council	286	0		0	286
Yearbook	3,859	8,966		6,438	6,387
Softball	698	1,250		293	1,655
Accelerated Reading Incentive	2,101	3,098		2,388	2,811
General	3,246	1,628		2,536	2,338
Girls Basketball	86	6,519		5,459	1,146
Nat'l Forensic League (Speech)	1,438	3,812		3,501	1,749
Vocal Music	267	0		38	229
Indian Club	442	0		0	442
Middle School	3,655	790		3,176	1,269
Bill Mooney Art Fund	5,750	0		1,131	4,619
Baseball	2,103	6,759		5,731	3,131
Middle School Student Council	17	0		0	17
H.S. Academic Team	172	0		0	172
M.S. Cheerleaders	1,307	2,148		1,591	1,864
Elementary	311	9,952		7,732	2,531
Elementary Counselor	52	0		0	52
M.S. Academic Team	17	0		0	17
Weightlifting	154	0		0	154
Basketball	1,485	2,146		2,928	703
Josh Upchurch Memorial	6,222	1,313		1,161	6,374
H.S. Office	5,258	731		937	5,052
Upper Elementary AR	42	0		0	42
Science	3,663	9,127		8,095	4,695
FCA	535	65		330	270
Football	1,229	11,045		7,905	4,369
Track	464	0		0	464
Employees Flower Fund	833	979		270	1,542
Athletic Boosters	0	0		0	0
Fastpitch Softball	3,159	2,289		5,203	245
Class of 2016	938	0		851	87
Class of 2017	515	2,153		1,811	857
Jr. Beta Club	133	0		0	133
Class of 2018	0	230		0	230
Class of 2019	0	1,333		801	532
Technology Insurance	0	2,520		611	1,909
MS Engineering	0	3,550		2,614	936
Pink Out	2,236	3,073		5,282	27
Total Liabilities	\$ 91,942	213,219	0	199,598	105,563

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/2015	Revenue Collected	Total Expenditures	Balance at 6/30/2016
<u>U.S. Department of Education:</u>							
<u>Direct Programs:</u>							
Indian Education	84.060	S060A150132	\$ 37,755		35,822	35,822	
Indian Education c/o	84.060	S060A140132	1,127		1,127	1,127	
Indian Education 2014-15 Note	84.060	S060A140132		6,558	6,558		
Small, Rural Schools Achievement	84.358	S358A158094	37,807		21,997	21,997	
Small, Rural Schools Achievement c/o	84.358	S358A148094	12,380		12,380	12,380	
Small, Rural Schools Achiev. 2014-15 - Note	84.358	S358A148094		5,523	5,523		
Sub Total			<u>89,069</u>	<u>12,081</u>	<u>83,407</u>	<u>71,326</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
Title I	84.010	S010A160036	164,461		153,248	153,248	
Title I 2014-15 - Note	84.010	S010A150036		59,658	59,658		
Title II, Part A	84.367	S367A160035	36,436		22,698	22,698	
Title II, Part A 2014-15 - Note	84.367	S367A150035		10,102	10,102		
IDEA-B, Flowthrough	84.027	H027A160051	118,304		118,304	118,304	
IDEA-B, Preschool	84.173	H173A160084	2,415		2,415	2,415	
Sub Total			<u>321,616</u>	<u>69,760</u>	<u>366,425</u>	<u>296,665</u>	<u>0</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education</u>							
<u>Child Nutrition Programs:</u>							
School breakfast program	10.553				56,967	56,967	
National school lunch program	10.555				168,757	168,757	
CNP Professional Standards Tech Assist.	10.547				300	300	
Sub Total					<u>226,024</u>	<u>226,024</u>	
<u>Passed Through Department of Human Services</u>							
<u>Non-cash assistance - commodities - Note 1</u>							
National school lunch program	10.555				20,701	20,701	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130		10,200		5,120	5,120	
Diesel Emission Rebate Program	66.xxx		75,000			75,000	75,000
Flood Control	12.112		68		68	68	
Sub Total			<u>85,268</u>	<u>0</u>	<u>5,188</u>	<u>80,188</u>	<u>75,000</u>
Total Federal Assistance			<u>\$ 495,953</u>	<u>81,841</u>	<u>701,745</u>	<u>694,904</u>	<u>75,000</u>

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

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2016. This information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements except as noted in Note 3. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 - Non-Monetary Assistance - Commodities received by the District in the amount of \$20,701 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements

INDEPENDENT SCHOOL DISTRICT NO. I-5, CREEK COUNTY  
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
FOR THE YEAR ENDED JUNE 30, 2016

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
The Beckman Company - RLI Surety Co.	Treasurer	LSM0373843	\$ 100,000	07/01/15 - 07/01/16
	Superintendent	LSM0221057	100,000	07/01/15 - 07/01/16
	Encumbrance Clerk	FID8001134	2,000	12/09/15 - 12/09/16
	Payroll Clerk	FID8001134	2,000	12/09/15 - 12/09/16
	Admin Asst / Elem. Principal	FID8001134	5,000	12/09/15 - 12/09/16
	Child Nutrition / Activity Fund	FID8001134	2,000	12/09/15 - 12/09/16
	Board Minutes Clerk	FID8001134	2,000	12/09/15 - 12/09/16
	Child Nutritionist	FID8001134	2,000	12/09/15 - 12/09/16
	Athletic Director	FID8001134	2,000	12/09/15 - 12/09/16

INDEPENDENT SCHOOL DISTRICT NO. 1-5, CREEK COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2015 TO JUNE 30, 2016

State of Oklahoma            )  
  ) ss  
County of Tulsa             )

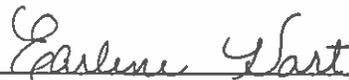
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Mounds Public School for the audit year 2015-16.

Sanders, Bledsoe & Hewett,  
Certified Public Accountants, LLP  
Auditing Firm

By   
Authorized Agent

Subscribed and sworn to before me  
This 13<sup>th</sup> day of October, 2016



  
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2020  
Commission No. 00008621



**SANDERS, BLEDSOE & HEWETT**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA  
Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA

P.O. BOX 1310 • 101 N. MAIN ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

October 13, 2016

Mr. Doran Smith, Supt.  
Mounds Public Schools  
P.O. Box 189  
Mounds, Oklahoma 74047

Dear Mr. Smith:

Listed below are the audit exceptions and recommendations from the final audit work we performed for you, and are referred to in your audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

**The following section contains the exceptions relayed to management that are control deficiencies, which are not included, but which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies.**

Mileage and Cell Phone Reimbursement

We noted a purchase order to the superintendent for mileage and cell phone pay. While this is an allowable expenditure and appropriately stated in the employee's contract, this type of compensation should be run through payroll. We recommend that employees be paid any additional duties through the normal monthly payroll process, as required by IRS standards. This is a repeat finding from prior year.

Treasurer Reconciliations

During our estimate of needs work, we observed that the bank balances were not properly reconciled to the financials, when we reconciled the year end fund balances with the year-end reports, we were unable to tie the revenues and expenditures to the treasurer's records. We recommend that each month, a revenue summary and expenditure report be prepared and reconciled to the treasurer's records and the bank statements. It is noted that the District has hired a new treasurer, who appears to be reconciling the bank information in a proper and timely manner.

### Federal Programs

We observed one instance (Project 588) where the amounts claimed for reimbursement did not match the actual amounts coded to that project code, according to OCAS reports. The difference was discovered and communicated with staff during our visit and we believe this will be corrected before final OCAS reports are submitted. However, it is possible that the District will be contacted by the State Department of Education about this variance, and they will require a written response regarding the difference. The amounts that will be included on the Schedule of Expenditures of Federal Awards (SEFA) in your audit report will be the actual amounts expended and claimed, not necessarily the amounts according to OCAS.

### Activity Funds Deposits

We observed during our examination of activity fund collections that sponsors were not turning money in for deposit in a timely manner. Although these amounts were immaterial, we recommend sponsors turn in collections daily, or weekly if the collections are less than \$100.00. It appeared that the activity fund district-wide was depositing these funds in a proper and timely manner, but it was obvious that the sponsors (normally teachers) were holding cash and checks collected from students and/or parents for too long before turning these funds into the office for deposit. Holding these funds overnight increases the opportunity for lost or stolen funds. We recommend that all student activity fund sponsors be reminded that all funds collected each day should be turned in to the site or district activity fund office for immediate deposit. In addition, we noted some instances where the sponsor receipt was not properly dated. We recommend that sponsors properly date every receipt that is written so that a clear audit trail exists from the time of collection to the corresponding deposit.

Sincerely,



Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP