FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86 CADDO COUNTY, OKLAHOMA JUNE 30, 2014

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
JUNE 30, 2014

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CADDO COUNTY, OKLAHOMA
JUNE 30, 2014

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GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JULY 1, 2013 THROUGH JUNE 30, 2014

Board of Education

President	Wes Savage
Vice-President	Bart Daugherty
Clerk	David Harrison
Member	Mike Jennings
Member	Paul Buzbee

School District Treasurer

James Allen

Superintendent of Schools

Mike Jones

BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Gracemont Independent School District No. 86
Gracemont, Caddo County, Oklahoma

Report on the Financial Statements

We have audited the accompanying fund type and account group financial statements-regulatory basis of Gracemont Independent School District No. 86, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gracemont Independent School District No. 86, Oklahoma'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 the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education as described in Note 1. 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not

for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

As discussed in Note 1, Gracemont Independent School District No. 86, Oklahoma, prepares its financial statements in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the School's policy to prepare its financial statements on the basis of accounting discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Gracemont Independent School District No. 86, Oklahoma, as of June 30, 2014, or the results of its operations for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As discussed in Note 1, the financial statements referred to above do not include the general fixed asset account group, which is a departure form the accounting and financial reporting regulations prescribed or permitted 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

However, in our opinion, except for the omission of the general fixed asset account group as discussed in the Basis for Qualified Opinion on Regulatory Basis of Accounting paragraph, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances arising from regulatory basis transactions of each fund type and account group of Gracemont Independent School District No. 86, Oklahoma, as of June 30, 2014, and the revenues it received and expenditures it paid and encumbered for the year then ended, on the regulatory basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements that collectively comprise Gracemont Independent School District No. 86, Oklahoma's basic financial statements. The accompanying Combining Financial Statements and Schedule of Expenditures of Federal Awards as listed in the accompanying Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Financial Statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the fund type and account group 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, except for the financial statements being prepared in compliance with the regulatory basis as prescribed by the Oklahoma State Department of Education as discussed in Note 1, such information is 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 10, 2014, on our consideration of Gracemont Independent School District No. 86, Oklahoma's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Gracemont Independent School District No. 86, Oklahoma's internal control over financial reporting and compliance.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
October 10, 2014

NOTES TO COMBINED FINANCIAL STATEMENTS

OF

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. Summary of Significant Accounting Policies

The basic financial statements of the Gracemont Independent School District No. 86 (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

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 five 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.

Summary of Significant Accounting Policies, (Continued)

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

> Building Fund - The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

Summary of Significant Accounting Policies, (Continued)

Fund Accounting, (Continued)

Special Revenue Fund, (Continued)

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

Insurance Fund - The Insurance Fund consists of monies collected from insurance and is expended on erecting, remodeling, or repairs.

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

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 schools sites, constructing and equipping new school facilities, renovating existing facilities, and acquiring transportation equipment.

Permanent Fund - Permanent Funds account for restricted resources where the District is under an obligation to maintain the trust principal. The District has no permanent funds.

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. 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.

Summary of Significant Accounting Policies, (Continued)

Fund Accounting, (Continued)

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

Account Groups

Account groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds.

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for compensated absences and early retirement incentives which are to be paid from funds provided in future years.

General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the school district. The District has not maintained the cost of fixed assets purchased in previous years. Thus the General Fixed Asset Account Group is not presented.

Memorandum Only - Total Column

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

Summary of Significant Accounting Policies, (Continued)

C. Basis of Accounting

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

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

- Encumbrances represented by purchase orders, contracts and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types.

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 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.

The District may upon approval by a majority of the electors of the District voting on the question make the advalorem levy, emergency levy and local support levy permanent.

Summary of Significant Accounting Policies, (Continued)

Budgets and Budgetary Accounting, (Continued)

Under current Oklahoma Statutes, a formal budget is required for all funds except for agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

E. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents - For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

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

Property Tax Revenues - The District is authorized by state law to levy property taxes which consist of advalorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes 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 October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If, at the end of two years, the owner has not done so, the purchaser is issued a deed to the property.

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

Summary of Significant Accounting Policies, (Continued)

Assets, Liabilities and Fund Equity, (Continued)

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group is not presented.

Compensated Absences - The school does not calculate a dollar value of compensated absences. Thus, compensated absences have not been presented.

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 resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

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

F. Revenue, Expenses and Expenditures

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 or additions of revenue of the year when the adjustment is made.

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

Summary of Significant Accounting Policies, (Continued)

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

G. Statement of Cash Flows

Since the District does not currently have any Proprietary Fund Types, the statement of cash flows has not been presented in the fiscal year 2014 accompanying financial statements.

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, 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.

Deposits - The District's cash deposits at June 30, 2014, are categorized to give an indication of the level of risk assumed by the District at year end as follows:

Deposit Categories of Credit Risk

(A) Insured or collateralized with securities held by the District or by its agent in the District's name.

(B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

(C) Uncollateralized.

Cash and Investments, (Continued)

Deposit Categories of Credit Risk, (Continued)

	Category (A)	Category (B)	Category (C)	Bank Balance
Cash	$ 299,188.22	$ 147,256.54	$ 0.00	$ 446,444.76
Investments	0.00	140,788.88	0.00	140,788.88
Totals	$ 299,188.22	$ 288,045.42	$ 0.00	$ 587,233.64

Investments - Investments consist of certificates of deposit or direct obligations of the United States Government and Agencies at June 30, 2014, and are categorized to give an indication of the level of risk assumed by the District.

3. **General Long-Term Debt**

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements.

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

	Bonds Payable
Balance 7-1-13	$ 235,000.00
Additions	0.00
Retirements	55,000.00
Balance 6-30-14	$ 180,000.00

General Long-Term Debt (Continued)

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

	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding
2012 Transportation Equipment Bond	0.60% - 1.00%	6-1-2017	$ 235,000.00	$ 180,000.00
			$ 235,000.00	$ 180,000.00

Presented below is a summary of debt service requirements for the remaining life of the 2012 Transportation Equipment Bond:

Year Ending June 30	Principal	Interest Rate	Interest	Total
2015	$ 60,000.00	$ 0.80%	$ 1,680.00	$ 61,680.00
2016	60,000.00	1.00%	1,200.00	61,200.00
2017	60,000.00	1.00%	600.00	60,600.00
	$ 180,000.00		$ 3,480.00	$ 183,480.00

Interest expense on general long-term debt incurred during the current year totaled $2,010.00.

4. **Employee Retirement System**

The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). Under the System, contributions are made by the District, the State of Oklahoma, and the participating employees. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The District has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years of contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit. 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 actuarial determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50% of applicable compensation effective January 1, 2010 and thereafter. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7.0% of each member's total compensation.

For the year ended June 30, 2014, the total compensation covered by the Teacher Retirement System was $773,705.97. The District's contributions to the System for the years ending June 30, 2014, 2013, and 2012 were $82,009.01, $79,506.95, and $67,960.26, respectively. The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

Employee Retirement System, (Continued)

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The nonfunded pension benefit obligation of the System, as determined as part of the latest actuarial valuation dated June 30, 2013, is as follows:

Total Pension Benefit Obligation	$18,973,166,739
Actuarial Value of Assets	10,861,057,537
Unfunded Actuarial Accrued Liability	$ 8,112,109,202

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

Ten year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2013. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. 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 53524, Oklahoma City, OK 73152 or by calling (405) 521-2387.

5. **Health Care Coverage**

During the year ended June 30, 2014, employees of the Gracemont Independent School District No. 86, Oklahoma, were covered by a health insurance plan (the plan). The teachers and support personnel may elect to be covered by the plan. The plan was authorized by House Bill 1731, 1988 Oklahoma Legislature (74 O.S. 1988, Supp. Section 1301-1322) with the Oklahoma State and Education Employers Group Insurance Board.

6. **Investment Income**

Investment income deposits are receipted as allocated by the Treasurer. School District Funds held by the Treasurer are required to be invested in accordance with Title 70 of the Oklahoma Statutes. Interest income on cash funds totaled $4,424.26.

7. **Contingencies**

Amounts received or receivable from grantor 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 amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

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, employees' health and life, and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

9. **Surety Bonds**

The District has a bond, which covers the Treasurer, through Western Surety Company, bond number 69027121, for the penal sum of $100,000.00 for the term of July 1, 2013 to July 1, 2014.

The District has a bond, which covers the Secretary, through Western Surety Company, bond number 70594952, for the penal sum of $1,000.00 for the term of October 3, 2012 to October 3, 2013 and for the term of October 3, 2013 to October 3, 2014.

The District has a bond, which covers the Minute/Encumbrance Clerk Activity Fund, through Western Surety Company, bond number 71067641, for the penal sum of $1,000.00 for the term of February 22, 2013 to February 22, 2014 and for the term of February 22, 2014 to February 22, 2015.

Surety Bonds (Continued

The District has a bond, which covers the Custodian/Superintendent of Activity Funds through Western Surety Company, bond number 70767280 for the penal sum of $100,000.00 for the term of July 1, 2013 to July 1, 2014.

10. **Subsequent Events**

Management has evaluated subsequent events through October 10, 2014, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

SUPPORTING SCHEDULES

OF

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA

COMBINING FINANCIAL STATEMENTS

OF

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA

Schedule 4-00

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
- REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2014

	Building Fund	Child Nutrition Fund	Insurance Fund	Totals 2014
ASSETS				
Cash and Investments	$ 20,260.72	$ 17,252.14	$ 12,399.00	$ 49,911.86
Total Assets	$ 20,260.72	$ 17,252.14	$ 12,399.00	$ 49,911.86
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants Payable	$ 1,288.96	$ 2,209.04	$ 12,399.00	$ 15,897.00
Encumbrances	0.00	0.00	0.00	0.00
Total Liabilities	1,288.96	2,209.04	12,399.00	15,897.00
Total Fund Balances	18,971.76	15,043.10	0.00	34,014.86
Total Liabilities and Fund Balances	$ 20,260.72	$ 17,252.14	$ 12,399.00	$ 49,911.86

Schedule 5-00

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - REGULATORY BASIS -
ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Building Fund	Child Nutrition Fund	Insurance Fund	Totals 2014
Revenues:				
Local Sources	$ 31,934.53	$ 19,542.03	$ 30,234.24	$ 81,710.80
Intermediate Sources	0.00	0.00	0.00	0.00
State Sources	0.00	9,602.93	0.00	9,602.93
Federal Sources	0.00	66,778.64	0.00	66,778.64
Total Revenues Collected	31,934.53	95,923.60	30,234.24	158,092.37
Expenditures:				
Instruction	0.00	0.00	0.00	0.00
Support Services	32,071.56	0.00	12,399.00	44,470.56
Non-Instructional Services	1,067.99	102,143.18	0.00	103,211.17
Capital Outlay	0.00	0.00	0.00	0.00
Other Outlays	0.00	0.00	0.00	0.00
Total Expenditures	33,139.55	102,143.18	12,399.00	147,681.73
Excess of Revenues Over (Under) Expenditures	(1,205.02)	(6,219.58)	17,835.24	10,410.64
Adjustments to Prior-Year Encumbrances	0.00	0.00	0.00	0.00
Other financing sources (uses):				
Transfers	0.00	0.00	(17,839.26)	(17,839.26)
Beginning Fund Balances	20,176.78	21,262.68	4.02	41,443.48
Ending Fund Balances	$ 18,971.76	$ 15,043.10	$ 0.00	$ 34,014.86

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - REGULATORY BASIS
ALL SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Building Fund		
	Original Budget	Final Budget	Actual
Beginning fund balances, budgetary basis	$ 20,176.78	$ 20,176.78	$ 20,176.78
Revenues:			
Local sources	22,179.05	22,179.05	31,934.53
Intermediate sources	0.00	0.00	0.00
State sources	0.00	0.00	0.00
Federal sources	0.00	0.00	0.00
Total Revenue, budgetary basis	22,179.05	22,179.05	31,934.53
Expenditures:			
Instruction	0.00	0.00	0.00
Support services	41,287.84	41,287.84	32,071.56
Non - Instructional services	1,067.99	1,067.99	1,067.99
Capital Outlay	0.00	0.00	0.00
Other Outlays	0.00	0.00	0.00
Total Expenditures, budgetary basis	42,355.83	42,355.83	33,139.55
Excess of revenue and beginning fund balances over (under) expenditures - budgetary basis	0.00	0.00	18,971.76
Other financing sources (uses):			
Transfers	0.00	0.00	0.00
Bond sale proceeds	0.00	0.00	0.00
Excess of revenues and other sources over (under) expenditures and other uses	0.00	0.00	18,971.76
Adjustments to prior year encumbrances	0.00	0.00	0.00
Ending fund balances	$ 0.00	$ 0.00	$ 18,971.76

Child Nutrition Fund			Insurance Fund		
Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
$ 21,262.68	$ 21,262.68	$ 21,262.68	$ 4.02	$ 4.02	$ 4.02
17,373.07	17,373.07	19,542.03	0.00	0.00	30,234.24
0.00	0.00	0.00	0.00	0.00	0.00
11,329.44	11,329.44	9,602.93	0.00	0.00	0.00
61,779.71	61,779.71	66,778.64	0.00	0.00	0.00
90,482.22	90,482.22	95,923.60	0.00	0.00	30,234.24
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	4.02	4.02	12,399.00
111,744.90	111,744.90	102,143.18	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
111,744.90	111,744.90	102,143.18	4.02	4.02	12,399.00
0.00	0.00	15,043.10	0.00	0.00	17,839.26
0.00	0.00	0.00	0.00	0.00	(17,839.26)
0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	15,043.10	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00
$ 0.00	$ 0.00	$ 15,043.10	$ 0.00	$ 0.00	$ 0.00

Schedule 7-00

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
- REGULATORY BASIS - FIDUCIARY FUNDS
JUNE 30, 2014

	Agency Fund Activities Fund	Totals 2014
ASSETS		
Cash and Investments	$ 49,188.22	$ 49,188.22
Total Assets	$ 49,188.22	$ 49,188.22
LIABILITIES AND FUND BALANCE		
Liabilities:		
Due to Others	$ 49,188.22	$ 49,188.22
Total Liabilities	49,188.22	49,188.22
Total Fund Balance	0.00	0.00
Total Liabilities and Fund Balance	$ 49,188.22	$ 49,188.22

Schedule 8-00

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
- REGULATORY BASIS -
ALL AGENCY FUNDS
JULY 1, 2013 THROUGH JUNE 30, 2014

ASSETS ACTIVITIES	Beginning Balance As of 7-1-13	Total Receipts	Total Adjustments	Total Disbursements	Ending Balance As of 6-30-14
General Activity	$ 158.20	$ 1,172.20	$ 164.92	$ 898.20	$ 597.12
Athletics	17,471.71	12,821.08	422.13	17,716.61	12,998.31
General Fund Refund	0.00	472.00	12.67	484.67	0.00
Shop	27.19	0.00	37.52	0.00	64.71
4-H	5,651.19	2,754.00	55.19	1,890.00	6,570.38
Pep Club	683.54	483.20	5.48	353.96	818.26
Annual	4,935.12	3,206.10	469.61	2,590.60	6,020.23
Elementary	3,622.49	13,643.65	40.72	12,300.60	5,006.26
Foreign Language	0.00	0.00	0.00	0.00	0.00
Art	0.70	0.00	0.00	0.00	0.70
Vocal Music	10.36	0.00	0.11	0.00	10.47
Alternative Ed	0.00	0.00	0.00	0.00	0.00
Class of 2016	967.53	6,143.00	17.09	4,095.20	3,032.42
Meritt Club	28.86	0.00	0.24	0.00	29.10
Gracemont Academic Team	170.69	0.00	1.40	0.00	172.09
Class of 2014	12,808.20	33,919.76	(560.58)	46,167.38	0.00
Classof 2017	0.00	3,030.79	(397.00)	515.50	2,118.29
Flower Fund	142.53	120.00	73.34	231.80	104.07
Drama	755.26	220.00	6.64	307.88	674.02
Student Council	136.69	1,766.50	2.56	1,849.95	55.80
Library	243.32	2,449.66	4.13	2,100.78	596.33
Class of 2013	0.00	0.00	0.00	0.00	0.00
Robotics	1,714.67	385.00	12.01	712.04	1,399.64
Class of 2015	3,741.61	22,938.80	(4,210.45)	13,549.94	8,920.02
TOTAL ASSETS	$ 53,269.86	$ 105,525.74	$ (3,842.27)	$ 105,765.11	$ 49,188.22
LIABILITIES					
Due to Student Groups	$ 53,269.86	$ 105,525.74	$ (3,842.27)	$ 105,765.11	$ 49,188.22
TOTAL LIABILITIES	$ 53,269.86	$ 105,525.74	$ (3,842.27)	$ 105,765.11	$ 49,188.22

SUPPLEMENTARY INFORMATION

OF

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grantor's Number	Approved Amount	Balance at July 1, 2013	Receipts	Expenditures	Balance at June 30, 2014
U.S. Department of Education Direct Programs:							
2012-2013 Programs							
Title VI - Small Rural School Achievement S358/	84.358	588	$	$ (469.32)	$ 469.32	$ 0.00	$ 0.00
Title VII - Part A Indian Education	84.060	561		(11,330.69)	11,330.69	0.00	0.00
2013-2014 Programs							
Title VI - Small Rural School Achievement S358/	84.358	588	11,577.41	0.00	11,577.41	11,577.41	0.00
Title VI - Small Rural School Achievement S358/	84.358	588	11,320.00	0.00	1,286.08	1,286.08	0.00
Title VII - Part A Indian Education	84.060A	561	22,794.00	0.00	22,794.00	22,794.00	0.00
Title VIII - Impact Aid	84.041	591	58,828.89	0.00	58,828.89	58,828.89	0.00
Total U.S. Department of Education			104,520.30	(11,800.01)	106,286.39	94,486.38	0.00
Passed Through State Department of Education:							
2012-2013. Programs							
Title I	84.010	511		(41,022.49)	41,022.49	0.00	0.00
Title II - Part A	84.367	541		(12,493.31)	12,493.31	0.00	0.00
IDEA-B Preschool	84.173	641		(480.64)	480.64	0.00	0.00
2013-2014 Programs							
Title I	84.010	511	38,318.88	0.00	36,831.21	36,831.21	0.00
Title II - Part A	84.367	586	11,909.80	0.00	11,909.80	11,909.80	0.00
IDEA B Flowthrough	84.027	621	31,944.43	0.00	22,081.13	31,944.43	(9,863.30)
IDEA-B Preschool	84.173	641	473.63	0.00	0.00	473.63	(473.63)
Medicaid Resources	93.778	698	5,938.49	0.00	5,938.49	5,938.49	0.00
Total State Department of Education			88,585.23	(53,996.44)	130,757.07	87,097.56	(10,336.93)
Total U.S. and State Department of Education:			193,105.53	(65,796.45)	237,043.46	181,583.94	(10,336.93)
U.S. Department of Agriculture:							
Passed Through State Dept. of Education:							
Cash Assistance:							
National School Lunch Program	10.555	763	44,190.44	13,502.14	44,190.44	57,692.58	0.00
School Breakfast Program	10.553	764	22,588.20	7,878.03	22,588.20	30,466.23	0.00
Non-Cash Assistance (Commodities):							
National School Lunch Program	10.555	n/a	5,502.78	0.00	5,502.78	5,502.78	0.00
Total U.S. Department of Agriculture			72,281.42	21,380.17	72,281.42	93,661.59	0.00
Total Federal Assistance			$ 265,386.95	$ (44,416.28)	$ 309,324.88	$ 275,245.53	$ (10,336.93)

Note - The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Nonmonetary assistance in the form of commodities is reported in the schedule at the fair market value of the commodities received and disbursed.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

OF

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA

BRITTON, KUYKENDALL, & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

204 E. FRANKLIN - P.O. BOX 507
WEATHERFORD, OK 73096
580-772-3596
FAX 580-772-3085

BRANCH OFFICE:
106 N. COLLEGE - P.O. BOX 266
CORDELL, OK 73632
580-832-5313
FAX 580-832-5314

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
Gracemont Independent School District No. 86
Gracemont, Caddo 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 fund type and account group financial statements of Gracemont Independent School District No. 86, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Gracemont Independent School District No. 86, Oklahoma's basic financial statements, and have issued our report thereon dated October 10, 2014. As stated in our report, the financial statements were prepared in compliance with the cash basis as prescribed by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. In our report, our opinion was qualified because the omission of the General Fixed Assets Account Group results in an incomplete presentation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gracemont Independent School District No. 86, Oklahoma'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 Gracemont Independent School District No. 86, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* in the United States of America.

However, we noted certain matters that we have reported to the Board of Education and administrative employees of Gracemont Independent School District No. 86, Oklahoma, in a separate statement of audit comments included with this report.

Purpose of this Report

This 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.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
October 10, 2014

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
AUDIT COMMENTS
JUNE 30, 2014

CURRENT YEAR

14-1 During our audit of the payroll records, we noted that the most recent Immigration and Naturalization Service Form I-9 was not being used. The form currently being used is expired. The most recent form should be completed to comply with federal law.

PRIOR YEAR

13-1 During our audit of the federal programs, we noted where the District did not record any expenditures in the accounting system for the Medicaid Resources federal program. The District must reconcile all federal program expenditures with the corresponding federal program revenues to ensure all federal programs are recorded properly in the District's accounting system. These expenditures were corrected in the District's accounting system for the Medicaid Resources federal program prior to the District's final reports being submitted to the Oklahoma State Department of Education.

The District implemented procedures to correct prior year comment 13-1.

Gracemont Public Schools
Post Office Box 5
417 East McCall Street
GRACEMONT, OKLAHOMA 73042-0005

(405) 966-2233 HIGH SCHOOL
(405) 966-2551 ELEMENTARY
(405) 966-2395 FAX HIGH SCHOOL
(405 966-2100 FAX ELEMENTARY

October 10, 2014

Britton, Kuykendall, & Miller
P.O. Box 507
Weatherford, OK 73096

Dear Mr. Rick Miller:

The following is a response to the audit comment for FY 14 School Year:

14-1

Beginning July 1 of each year, our payroll clerk will check to make sure we are utilizing the most up to date Immigration and Naturalization Service Form I-9. We will also periodically make checks to make sure there haven't been updates during the year to this form. If there has been an update, we will upgrade at that time to the new form.

Thank you for your assistance with the audit and all of your help.

Respectfully,

Mike Jones, Superintendent
Gracemont Public School

Gracemont Public Schools
Post Office Box 5
417 East McCall Street
GRACEMONT, OKLAHOMA 73042-0005

(405) 966-2233 HIGH SCHOOL
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(405 966-2100 FAX ELEMENTARY

October 14, 2013

Britton, Kuykendall, & Miller
P.O. Box 507
Weatherford, OK 73096

Dear Mr. Rick Miller:

The following is a response to the audit comment for FY 13 School Year:

13-1

All Federal Program expenditures will be reconciled to ensure that all Federal Program Revenues correspond to the respective program. They will be properly coded in our district's financial accounting system prior to being submitted to the Oklahoma State Department of Education. Training will be provided to the encumbrance officer to aid in future proper coding procedures.

Thank you for your assistance with the audit and all of your help.

Respectfully,

Mike Jones, Superintendent
Gracemont Public School

GRACEMONT INDEPENDENT SCHOOL DISTRICT NO. 86
CADDO COUNTY, OKLAHOMA
SCHEDULE OF ACCOUNTANTS' PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2013 THROUGH JUNE 30, 2014

State of Oklahoma)
) ss
County of Custer)

The undersigned auditing firm of lawful age, being first duly sworn on oath, says that said firm had in full force and effect Accountants' Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Gracemont Independent School District No. 86, Oklahoma, for the audit year 2013-2014.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

By Rick Miller

Subscribed and sworn to before me this 10th day of October, 2014.

Patty Klein
NOTARY PUBLIC

PATTY KLEIN NOTARY PUBLIC #07007593 EXP. 8-9-15 IN AND FOR STATE OF OKLAHOMA CUSTER COUNTY