

**AUDIT REPORT**

**Harmony School District C-021**

**Atoka County, Oklahoma**

**July 1, 2014 to June 30, 2015**

Prepared By:

John D. Turrentine CPA, P.C.  
607 East Main Street  
Stigler Oklahoma 74462

**HARMONY SCHOOL DISTRICT NO. C-021  
 ATOKA COUNTY, OKLAHOMA  
 JUNE 30, 2015**

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**HARMONY SCHOOL DISTRICT NO. C-021**

**ATOKA COUNTY, OKLAHOMA**

**JUNE 30, 2015**

**SCHOOL DISTRICT OFFICIALS**

Board of Education

President	Troy Gammon Jr.
Vice-President	Jerod Hatcher
Clerk	Cecil Mackey

Superintendent

Brian Walker

**John D. Turrentine**  
Certified Public Accountant, P.C.  
607 East Main Street  
Stigler Oklahoma 74462

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INDEPENDENT AUDITOR'S REPORT

December 14, 2015

The Honorable Board of Education  
Harmony School District C-21  
Atoka County, Oklahoma

**Report on the Financial Statements**

I have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Harmony School District No.C-21, Atoka County, Oklahoma (the District), as of and for the year ended June 30, 2015, 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 the 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**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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, I 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 financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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

As discussed in Note 1C, 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 these regulatory basis of accounting described in Note 1C 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 my 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, 2015, 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 the Regulatory Basis of Accounting**

In my 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 Harmony School District, Atoka County, Oklahoma, as of June 30, 2015, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1C.

**Other Matters**

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District’s basic financial statements. The combining fund financial statements-regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the 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 my opinion, the combined 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 taken as a whole.

**Other Reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2015 on my consideration of the District’s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and is 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.

John David Turrentine  
Certified Public Accountant

John D. Turrentine  
Certified Public Accountant P.C.  
607 East Main Street  
Stigler Oklahoma 74462

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**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**

December 14, 2015

To the Honorable Board of Education  
Harmony School District  
Atoka County, Oklahoma

I 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 Standard, 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 Harmony School District C-21, Atoka County, Oklahoma as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated December 14, 2015. The report 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, my 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 my audit, I 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I 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 misstatements, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## 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.

Sincerely,

John D. Turrentine CPA, P.C.  
Stigler Oklahoma  
December 14, 2015

**HARMONY SCHOOL DISTRICT NO. C-21**  
**COMBINED STATEMENT OF ASSETS, LIABILITIES, AND EQUITY - REGULATORY BASIS -**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**June 30, 2015**

	<u>Governmental Fund Types</u>			<u>Fiduciary</u>	<u>Total</u>	
	<u>General</u>	<u>Special</u>	<u>General</u>	<u>Type</u>	<u>(Memorandum Only)</u>	
<u>Assets</u>		<u>Revenue</u>	<u>Long Term</u>	<u>Agency</u>	<u>June 30,</u>	<u>June 30,</u>
			<u>Debt</u>		<u>2015</u>	<u>2014</u>
Cash & Cash Equivalents	\$306,094	\$101,343	\$ 0	\$ 17,929	\$425,366	\$278,426
Investments	<u>\$200,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$200,000</u>	<u>\$200,000</u>
Total Current Assets	<u>\$506,094</u>	<u>\$101,343</u>	<u>\$ 0</u>	<u>\$ 17,929</u>	<u>\$625,366</u>	<u>\$478,426</u>
Amount to be Provided	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 43,701</u>
<b>Total Assets</b>	<u><b>\$506,094</b></u>	<u><b>\$101,343</b></u>	<u><b>\$ 29,622</b></u>	<u><b>\$ 17,929</b></u>	<u><b>\$654,988</b></u>	<u><b>\$522,127</b></u>
<b><u>Liabilities &amp; Fund Balance</u></b>						
Warrants Payable	\$ 22,144	\$ 3,618	\$ 0	\$ 0	\$ 25,762	\$ 29,977
Due to Student Groups				\$ 17,929	\$ 17,929	\$ 20,556
Encumbrances	<u>\$ 10,789</u>	<u>\$ 2,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,289</u>	<u>\$ 13,237</u>
Total Current Liabilities	<u>\$ 32,933</u>	<u>\$ 6,118</u>	<u>\$ 0</u>	<u>\$ 17,929</u>	<u>\$ 56,980</u>	<u>\$ 63,770</u>
Capital Leases	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 43,701</u>
Total Long-Term Liabilities	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 0</u>	<u>\$ 29,622</u>	<u>\$ 43,701</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$ 32,933</b></u>	<u><b>\$ 6,118</b></u>	<u><b>\$ 29,622</b></u>	<u><b>\$ 17,929</b></u>	<u><b>\$ 86,602</b></u>	<u><b>\$ 107,471</b></u>
Cash Fund Balance	<u>\$ 473,160</u>	<u>\$ 95,225</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$568,386</u>	<u>\$ 414,655</u>
<b>TOTAL FUND BALANCE</b>	<u><b>\$ 473,160</b></u>	<u><b>\$ 95,225</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$568,386</b></u>	<u><b>\$ 414,655</b></u>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<u><b>\$ 506,094</b></u>	<u><b>\$101,343</b></u>	<u><b>\$ 29,622</b></u>	<u><b>\$ 17,929</b></u>	<u><b>\$654,988</b></u>	<u><b>\$ 522,127</b></u>

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

**HARMONY SCHOOL DISTRICT C-21**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES**  
**June 30, 2015**

	<u>Governmental Fund Types</u>		<u>Fiduciary</u>	<u>Total</u> <u>(Memorandum Only)</u>	
	<u>General</u>	<u>Special</u> <u>Revenue</u>	<u>Agency</u>	<u>2015</u>	<u>2014</u>
	<b><u>Revenues Collected</u></b>				
Local Sources	\$ 250,443	\$ 46,981	\$ 0	\$ 297,424	\$ 341,723
Intermediate Sources	34,043	0	0	34,043	30,065
State Sources	1,341,855	16,147	0	1,358,002	1,295,185
Federal Sources	<u>219,011</u>	<u>90,910</u>	<u>0</u>	<u>309,921</u>	<u>312,685</u>
<b>Total Revenue</b>	<b><u>\$1,845,353</u></b>	<b><u>\$154,038</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,999,391</u></b>	<b><u>\$ 1,979,657</u></b>
<b><u>Expenditures Paid</u></b>					
Instruction	\$1,084,489	\$ 0	\$ 0	\$ 1,084,489	\$ 1,110,276
Support Services	567,224	45,548	0	612,772	705,429
Non instructional Services	13,095	119,796	0	132,891	147,082
Facilities Acquisition & Construction	0	0	0	0	45,619
Other Outlays	15,507	0	0	15,507	5,341
Repayments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b>	<b><u>\$1,680,315</u></b>	<b><u>\$165,344</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,845,659</u></b>	<b><u>\$ 2,013,748</u></b>
Revenue Over (Under) Expenditures Paid					
Before Adjustment to Prior Year Encumbrances	<u>\$ 165,038</u>	<u>\$(11,306)</u>	<u>\$ 0</u>	<u>\$ 153,732</u>	<u>\$ (34,091)</u>
Adjustment to Prior Year Encumbrances	\$ 0	\$ 6	\$ 0	\$ 0	\$ 6
Cash Fund Balance July 1, 2014	<u>\$ 308,123</u>	<u>\$106,533</u>	<u>\$ 0</u>	<u>\$ 414,655</u>	<u>\$ 448,739</u>
Cash Fund Balance June 30, 2015	<u>\$ 473,160</u>	<u>\$ 95,226</u>	<u>\$ 0</u>	<u>\$ 568,386</u>	<u>\$ 414,655</u>

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

**HARMONY SCHOOL DISTRICT NO. C-21**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND**  
**ACTUAL - REGULATORY BASIS - BUDGETED GOVERNMENTAL FUND TYPES**

**June 30, 2015**

	GENERAL FUND			SPECIAL REVENUE FUND		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b><u>Revenues Collected</u></b>						
Local Sources	\$ 203,961	\$ 203,961	\$250,443	\$ 39,575	\$ 39,575	\$ 46,981
Intermediate Sources	27,058	27,058	34,043	0	0	0
State Sources	\$ 1,270,921	1,270,921	1,341,855	16,036	16,036	16,147
Federal Sources	129,235	129,235	219,011	88,425	88,425	90,910
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>\$ 1,631,174</u>	<u>\$ 1,631,174</u>	<u>\$ 1,845,353</u>	<u>\$ 151,350</u>	<u>\$ 151,350</u>	<u>\$ 154,038</u>
<b><u>Expenditures Paid</u></b>						
Instruction	\$ 1,375,747	\$ 1,375,747	\$ 1,084,489	\$ 0	\$ 0	\$ 0
Support Services	547,462	547,462	567,224	109,750	109,750	45,548
Non-instruction Services	15,787	15,787	13,095	140,818	140,818	119,796
Facilities Acquisition	0	0	0	0	0	0
Other Outlays	300	300	15,507	0	0	0
Repayments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 1,939,297</u>	<u>\$ 1,939,297</u>	<u>\$ 1,680,315</u>	<u>\$ 250,568</u>	<u>\$ 250,568</u>	<u>\$ 165,344</u>
Excess of Revenues Collected Over (Under) Expenses Paid						
Before Adjustments to Prior Year Encumbrances			\$ 165,038			\$ (11,306)
Adjustments to prior year encumbrances			\$ 0			\$ 0
Other Financing Sources:						
Total Other Financing Sources			<u>\$ 0</u>			<u>\$ 0</u>
Excess of Revenues Collected Over (Under)						
Expenses Paid and Other Financing Sources			<u>\$ 165,038</u>			<u>\$ (11,306)</u>
Cash Fund Balance, beginning of year			\$ 308,123			\$ 106,533
Cash Fund Balance, end of year			<u>\$ 473,160</u>			<u>\$ 95,226</u>

**\*The accompanying notes are an integral part of these statements.**

**HARMONY SCHOOL DISTRICT NO. C-21  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

1. Summary of Significant Accounting Policies

The financial statements of the Harmony Public Schools District No. C-21 (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by 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 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 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 is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity. The School Education Foundation is not included in the reporting entity. The District does not appoint any of the board members or exercise any oversight authority over the Foundation.

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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 services 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 buildings 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 fund consists of the District's Building and Child Nutrition Funds. The building fund consists of monies derived from investment income and property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture & equipment. The Child Nutrition accounts for funds coming from state aid, Department of Agriculture funds, and from student fees and is used for purchasing food, supplies, certain authorized equipment, and salaries.

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 school facilities, renovating existing facilities, and acquiring transportation equipment.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service 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. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" 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 operations.

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

Account Groups

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

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 currently does not maintain this account group.

Memorandum Only - Total Column

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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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 Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

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

D. Budgets and Budgetary Accounting

The Harmony School 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 ad valorem levy for emergency levy and local support levy permanent.

Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. All annual encumbrances and appropriations lapse at fiscal year-end.

### 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 Commercial Bank Certificate of Deposit and direct obligations of the United States Government and Agencies with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

Property Tax Revenues - The District is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the County Treasurer prior to October 1. The County Treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half is due prior to April 1. 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, 2015 is not material to the financial statements.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group is not presented. This is a departure from the Regulatory Basis Presentation.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group since none of the vested sick leave is expected to be liquidated with expendable available financial resources.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

Long-Term Debt - Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance - Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

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 district 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 years 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 be expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

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

G. Statement of Cash Flows

The District has not presented a statement of cash flows in the fiscal 2015 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

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

In accordance with state statutes, the District's investment policy is to comply with these requirements. The district's current investments consist of bank certificates of deposit.

Deposits and Investments - The District's cash deposits and investments at June 30, 2015 of \$625,366 were completely insured or collateralized by federal deposit insurance, direct obligations of the U.S. Government, or securities held by the district or by its agent in the district's name.

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. General long-term debt of the District consists of Capital Leases. The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2015:

	<u>Bonds payable</u>	<u>Compensated absences</u>	<u>Early retirement incentive</u>	<u>Capital lease obligation</u>	<u>Total</u>
Balance, July 1, 2014				\$ 43,701	\$ 43,701
Additions				\$ 0	\$ 0
Retirements				<u>\$ 14,078</u>	<u>\$ 14,078</u>
Balance, June 30, 2015				<u>\$ 29,622</u>	<u>\$ 29,622</u>

The District has entered into lease agreements as lessee for financing the acquisition of buses. The lease agreement qualifies as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. These leases contain a clause which gives the District the ability to terminate the lease agreement at the end of each fiscal year.

As disclosed in Note 1 to the financial statements, the district does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the leased property as an asset in the General Fixed Assets Account Group.

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

<u>Year Ending</u>		<u>Buses</u>		<u>Totals</u>
2016	0	15,578	0	15,578
2017	0	15,578	0	15,578
Total Min. Payments		\$ 31,156		\$ 31,156
Less: Interest Amount		<u>\$ (1,533)</u>		<u>\$ (1,533)</u>
Pres Value Future Min. Lease Pymts		<u>\$ 29,622</u>		<u>\$ 29,622</u>

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### Employee Retirement System

The District participates in the state-administered Oklahoma Teacher's 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 requirement.

The System issues an independent financial report, financial statements, and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, Post Office Box 53524, Oklahoma City, OK 73152 or by calling 405-521-2387.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent 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 of \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not 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 9.5%. 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% of regular annual compensation.

The District's required and actual contributions to the System for the years ending June 30, 2013, 2014, and 2015 were \$183,597, \$195,474, and \$184,802 respectively.

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.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

There are no actuarial valuations performed on individual school districts. The unfunded actuarial accrued liability of the System, as determined as part on the latest actuarial valuation dated June 30, 2015, is as follows:

Total actuarial accrued liability	\$20,692,630,888
Less Actuarial value of assets	<u>13,771,884,292</u>
Unfunded actuarial accrued liability	\$ <u>6,920,746,596</u>

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

Ten year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2015. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

5. Contingencies

Amounts received 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.

6. Risk Management

The District is exposed to various risks to loss. The District purchases commercial insurance to manage these various risks. 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.

**HARMONY SCHOOL DISTRICT C-021**  
**COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES**  
**- REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS**  
**June 30, 2015**

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	Total (Memorandum Only) June 30, <u>2014</u> <u>2015</u>	
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 71,410	\$29,933	\$112,616	\$101,343
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 71,410</u>	<u>\$29,933</u>	<u>\$112,616</u>	<u>\$101,343</u>
 <b>LIABILITIES AND CASH FUND BALANCES</b>				
Liabilities:				
Outstanding warrants	\$ 0	\$ 3,618	\$ 6,055	\$ 3,618
Encumbrances	<u>2,500</u>	<u>0</u>	<u>28</u>	<u>2,500</u>
Total Liabilities	<u>\$ 2,500</u>	<u>\$ 3,618</u>	<u>\$ 6,083</u>	<u>\$ 6,118</u>
Cash Fund Balance	<u>\$ 68,910</u>	<u>\$26,316</u>	<u>\$106,533</u>	<u>\$ 95,225</u>
Total Liabilities and Cash Fund Balances	<u>\$ 71,410</u>	<u>\$29,933</u>	<u>\$112,616</u>	<u>\$101,343</u>

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

**HARMONY SCHOOL DISTRICT NO. C-21**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -**  
**- REGULATORY BASIS – ALL SPECIAL REVENUE FUNDS**

**June 30, 2015**

	Building Fund			Child Nutrition Fund			Total Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<b><u>Revenues Collected</u></b>									
Local Sources	\$ 29,137	\$ 29,137	\$ 34,058	\$ 10,438	\$ 10,438	\$ 12,923	\$ 39,575	\$ 39,575	\$ 46,981
Intermediate Sources	0	0	0	0	0	0	0	0	0
State Sources	0	0	0	16,036	16,036	16,147	16,036	16,036	16,147
Federal Sources	0	0	0	88,425	88,425	90,910	88,425	88,425	90,910
Other	0	0	0	0	0	0	0	0	0
Total Revenues	<u>\$ 29,137</u>	<u>\$ 29,137</u>	<u>\$ 34,058</u>	<u>\$114,899</u>	<u>\$114,899</u>	<u>\$119,980</u>	<u>\$ 144,036</u>	<u>\$144,036</u>	<u>\$154,038</u>
<b><u>Expenditures Paid</u></b>									
Instruction	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Support Services	109,750	109,750	45,548	0	0	0	109,750	109,750	45,548
Non-instruction Services	0	0	213	140,818	140,818	119,583	140,818	140,818	119,796
Facilities Acquisition	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Total Expenditures	<u>\$ 109,750</u>	<u>\$ 109,750</u>	<u>\$ 45,761</u>	<u>\$140,818</u>	<u>\$140,818</u>	<u>\$119,583</u>	<u>\$250,568</u>	<u>\$250,568</u>	<u>\$165,344</u>
Excess of Revenues Over (Under) Expenses Paid									
Before Adjustments to Prior Year Encumbrances			\$ (11,703)			\$ 397			\$ (11,306)
Adjustments to prior year encumbrances			\$ 0			\$ 0			\$ 0
Other Financing Sources:									
Total Other Financing Sources			<u>\$ 0</u>			<u>\$ 0</u>			<u>\$ 0</u>
Excess of Revenues Collected Over (Under)									
Expenses Paid and Other Financing Sources			<u>\$ (11,703)</u>			<u>\$ 397</u>			<u>\$ (11,306)</u>
Cash Fund Balance, beginning of year			\$ 80,613			\$ 25,919			\$106,533
Cash Fund Balance, end of year			<u>\$ 68,910</u>			<u>\$ 26,316</u>			<u>\$ 95,226</u>

\*The accompanying notes are an integral part of these statements.

**HARMONY SCHOOL DISTRICT C-021**  
**COMBINING STATEMENT OF CHANGES IN CASH BALANCES**  
**REGULATORY BASIS - ALL AGENCY FUNDS**  
**June 30, 2015**

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>ACTIVITIES</b>				
Child Nutrition Program	\$ 0	\$12,510	\$12,510	\$ 0
General Activity	6,481	21,622	21,585	6,517
Petty Cash	0	200	200	0
4-H	63	200	200	63
8 <sup>th</sup> Grade	389	11,751	11,859	282
Library	303	1,776	1,712	367
After School Program	2,917	0	1,448	1,469
Library II	403	2,102	2,273	232
<u>Zane Cooper Barnes Schol.</u>	<u>10,000</u>	<u>0</u>	<u>1,000</u>	<u>9,000</u>
<b>TOTAL</b>	<b><u>\$ 20,556</u></b>	<b><u>\$50,161</u></b>	<b><u>\$52,788</u></b>	<b><u>\$ 17,930</u></b>

\*The accompanying notes are an integral part of these statements.

**HARMONY SCHOOL DISTRICT NO. C-021**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - STATUTORY BASIS**  
**For the Year Ended June 30, 2015**

<b>Federal Grantor/Pass Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Approved Amount</b>	<b>Balance at July 1, 2014</b>	<b>Receipts</b>	<b>Expenditures</b>	<b>Cancelled/ Not Req'd</b>	<b>Balance at June 30, 2015</b>	<b>Project</b>
U.S. Department of Education								
Direct Programs:								
Indian Education	84.060	\$ 15,950	\$ 0	\$ 15,950	\$ 15,950		\$ 0	561
Title VI REAP	84.358A	\$ 13,649	\$ 0	\$ 13,108	\$ 13,649		\$ ( 541)	588
Impact Aid	84.041	\$ 3,079	\$ 0	\$ 3,240	\$ 3,079	\$(161)	\$ 0	591
Impact Aid - Disabled	84.041	\$ 161	\$ 0	\$ 0	\$ 161	\$ 161	\$ 0	592
Passed Through State Dept of Education:								
Title I Basic Program	84.010	\$ 68,424	\$ 0	\$ 68,424	\$ 68,424		\$ 0	511
Title II, Part A	84.367	\$ 15,150	\$ 0	\$ 15,150	\$ 15,150		\$ 0	586
IDEA-B flow through	84.027	\$ 48,602	\$ 0	\$ 48,602	\$ 48,602		\$ 0	621
IDEA-B Preschool	84.173	\$ 3,879	\$ 0	\$ 3,879	\$ 3,879		\$ 0	641
IDEA-B High Need	84.027	\$ 23,551	\$ 0	\$ 20,731	\$ 23,551		\$ ( 2,819)	627
TOTAL Dept. of Education		<u>\$159,606</u>	<u>\$ 0</u>	<u>\$156,786</u>	<u>\$159,606</u>		<u>\$ ( 2,819)</u>	
U.S. Dept. of Agriculture:								
Passed through the State Dept. of Education:								
USDA Lunch	10.555	\$ 68,394	\$ 0	\$ 68,394	\$ 68,394		\$ 0	763
USDA Breakfast	10.553	\$ 22,516	\$ 0	\$ 22,516	\$ 22,516		\$ 0	764
Passed Through Dept of Human Services:								
Non-Cash Commodities	10.555	\$ 7,357	\$ 0	\$ 7,357	\$ 7,357		\$ 0	
Other Programs:								
Johnson O'Malley	15.130	\$ 3,705	\$ 0	\$ 3,705	\$ 3,705		\$ 0	563
Medicaid Resources	93.778	\$ 26,222	\$ 0	\$ 26,222	\$ 41,429	\$15,207	\$ 0	698
<b>TOTALS</b>		<b><u>\$320,639</u></b>	<b><u>\$ 0</u></b>	<b><u>\$317,279</u></b>	<b><u>\$335,846</u></b>	<b><u>\$15,207</u></b>	<b><u>\$ ( 3,360)</u></b>	

\* The accompanying notes are an integral part of this statement

HARMONY SCHOOL DISTRICT NO. C-21  
SCHEDULE OF CURRENT FINDINGS AND  
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

PRIOR YEARS FINDINGS (July 1, 2013 to June 30, 2014)

No matters were reported.

CURRENT YEARS FINDINGS (July 1, 2014 to June 30, 2015)

No matters to report.

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

**HARMONY SCHOOL DISTRICT NO. C-021  
 Summary Schedule of Surety Bonds  
 FOR THE YEAR ENDED JUNE 30, 2015**

<u>Bond Type</u>	<u>Bonding Company</u>	<u>Bond Number</u>	<u>Amount</u>	<u>Expiration Date</u>
Surety/ Enc Clerk Minutes Clerk Activity Fund	Western Surety	61339579	\$100,000.00	07/01/2015
Surety/Superintendent	Western Surety	61339579	\$100,000.00	07/01/2015
Surety/ Treasurer	Western Surety	69775186	\$100,000.00	09/02/2015
Surety/All Positions	Western Surety	18170788	\$ 2,500.00	01/01/2016

**\*The accompanying notes are an integral part of these statements.**

