

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

**HILDALE INDEPENDENT SCHOOL DISTRICT NO. I-29,
MUSKOGEE COUNTY, OKLAHOMA**

JUNE 30, 2014

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2014

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INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3-4
Independent Auditor’s Report	5-6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements - Regulatory Basis – Performed in Accordance with Government Auditing Standards	7-8
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	9-10
Disposition of Prior Year’s Reportable Conditions and Material Instances of Non-Compliance	11
Schedule of Audit Results, Findings and Questioned Costs	12
Combined Financial Statements – Regulatory Basis	
Combined Statement of Assets, Liabilities and Fund Equity All Fund Types and Account Groups – Regulatory Basis	13
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types – Regulatory Basis	14
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	15-17
Notes to Combined Financial Statements - Regulatory Basis	18-33
Combining Financial Statements – Regulatory Basis	
Combining Statement of Assets, Liabilities and Fund Equity – All Special Revenue Funds – Regulatory Basis	34

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
JUNE 30, 2014

Page No.

Combining Financial Statements – Regulatory Basis – cont'd

Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Special Revenue Funds – Regulatory Basis	35
Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual - Special Revenue Fund Types – Regulatory Basis	36
Combining Statement of Assets and Liabilities – All Fiduciary Fund Types – Regulatory Basis	37
Combining Statement of Changes in Assets and Liabilities –Agency Funds – Regulatory Basis	38-39
Schedule of Expenditures of Federal Awards – Regulatory Basis	40
Schedule of Statutory, Fidelity and Honesty Bonds	41
Schedule of Accountant’s Professional Liability Insurance Affidavit	42



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

December 12, 2014

The Honorable Board of Education
Hilldale School District Number I-29
Muskogee, Muskogee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Hilldale School District Number I-29, Muskogee, Muskogee County, Oklahoma (the District), as of and for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” Paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2014, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and to other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

December 12, 2014

The Honorable Board of Education
Hilldale School District Number I-29
Muskogee, Muskogee County, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Hilldale School District Number I-29, Muskogee, Muskogee County, Oklahoma (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 12, 2014, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

December 12, 2014

The Honorable Board of Education
Hilldale School District Number I-29
Muskogee, Muskogee County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Hilldale School District Number I-29, Muskogee, Muskogee County, Oklahoma (District)'s, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL
INSTANCES OF NON-COMPLIANCE
JUNE 30, 2014

There were no prior year reportable conditions.

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

Section I – Summary of Auditor’s Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no significant deficiencies the internal controls.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.
4. The audit disclosed no significant deficiencies in the internal controls over major programs.
5. An unqualified opinion report was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major are the Child Nutrition Programs (10.553, 10.555) and Special Education Programs (84.027, 84.173), which were clustered in determination.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The district was determined not to be a low-risk auditee.

Section 2 – Findings Relating to the Financial Statements Required to be Reported in Accordance with GAGAS:

NONE

Section 3 – Findings and Questioned Costs for Federal Awards:

NONE

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2014**

<u>ASSETS</u>	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST AND AGENCY FUND	GENERAL LONG-TERM DEBT	(Memorandum Only)	
							2014	2013
Cash	\$ 2,814,484	(1,097,369)	117	196,334	180,283		2,093,849	334,867
Investments	1,506,063	3,114,013					4,620,076	7,203,944
Amounts to be provided for retirement of general long-term debt						58,397	58,397	58,397
Total Assets	\$ 4,320,547	2,016,644	117	196,334	180,283	58,397	6,772,322	7,597,208
<u>LIABILITIES AND FUND EQUITY</u>								
Liabilities:								
Warrants payable	\$ 458,382	21,517					479,899	349,459
Encumbrances	1,626,594	160,975		196,134			1,983,703	1,391,354
Funds held for school organizations					171,008		171,008	131,539
Long-term debt:								
Capital leases						21,999	21,999	58,397
Bonds payable						580,000	580,000	
Total liabilities	2,084,976	182,492	0	196,134	171,008	601,999	3,236,609	1,930,749
Fund Equity:								
Cash fund balances	2,235,571	1,834,152	117	200	9,275	0	4,079,315	5,666,459
Total Liabilities and Fund Equity	\$ 4,320,547	2,016,644	117	196,334	180,283	58,397	6,772,322	7,597,208

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	TOTALS (Memorandum Only)	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST FUNDS	2014	2013
Revenues:							
Local sources	\$ 1,883,490	521,824	117			2,405,431	2,012,751
Intermediate sources	304,495					304,495	298,764
State sources	7,951,998	10,656				7,962,654	7,744,707
Federal sources	728,144	396,052				1,124,196	1,600,652
Interest earnings	8,300	13,339		976		22,615	63,651
Non-revenue receipts	30,302					30,302	288,986
Total revenues	<u>10,906,729</u>	<u>941,871</u>	<u>117</u>	<u>976</u>	<u>0</u>	<u>11,849,693</u>	<u>12,009,511</u>
Expenditures:							
Instruction	7,044,277	21,993				7,066,270	6,707,427
Support services	4,882,775	76,691		50,600		5,010,066	4,527,642
Operation of non-instructional services	29,184	619,697				648,881	691,449
Facilities, acquisition and const. services	191,595	1,240,570		530,176		1,962,341	154,646
Other outlays:							
Clearing account							58,359
Correcting entry							1,830
Other uses	627	290				917	48,980
Total expenditures	<u>12,148,458</u>	<u>1,959,241</u>	<u>0</u>	<u>580,776</u>	<u>0</u>	<u>14,688,475</u>	<u>12,190,333</u>
Revenues over (under) expenditures	(1,241,729)	(1,017,370)	117	(579,800)	0	(2,838,782)	(180,822)
Other financing sources (uses):							
Lapsed appropriations	604,164	65,224				669,388	371,208
Estopped warrants	2,250					2,250	10
Bond proceeds	-			580,000		580,000	
Total other financing sources (uses)	<u>606,414</u>	<u>65,224</u>	<u>0</u>	<u>580,000</u>	<u>0</u>	<u>1,251,638</u>	<u>371,218</u>
Revenue and other sources over (under) expenditures and other uses	(635,315)	(952,146)	117	200	0	(1,587,144)	190,396
Cash fund balance, beginning of year	<u>2,870,886</u>	<u>2,786,298</u>	<u>0</u>	<u>0</u>	<u>9,275</u>	<u>5,666,459</u>	<u>5,476,063</u>
Cash fund balance, end of year	<u>\$ 2,235,571</u>	<u>1,834,152</u>	<u>117</u>	<u>200</u>	<u>9,275</u>	<u>4,079,315</u>	<u>5,666,459</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 GENERAL FUND - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014**

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:			
Local sources	\$ 1,472,311	1,472,311	1,883,490
Intermediate sources	271,883	271,883	304,495
State sources	7,734,857	7,734,857	7,951,998
Federal sources	725,063	725,063	728,144
Interest earnings			8,300
Non-revenue receipts			30,302
Total revenues	10,204,114	10,204,114	10,906,729
Expenditures:			
Instruction	7,070,000	7,070,000	7,044,277
Support services	4,885,500	4,885,500	4,882,775
Operation of non-instructional services	34,200	34,200	29,184
Facilities, acquisition & constr. services	192,000	192,000	191,595
Other uses	892,800	892,800	481
Repayments	500	500	146
Total expenditures	13,075,000	13,075,000	12,148,458
Revenues over (under) expenditures	(2,870,886)	(2,870,886)	(1,241,729)
Other financing sources (uses):			
Lapsed appropriations			604,164
Estopped warrants			2,250
Total other financing sources (uses)	0	0	606,414
Revenue and other sources over (under) expenditures and other uses	(2,870,886)	(2,870,886)	(635,315)
Cash fund balance, beginning of year	2,870,886	2,870,886	2,870,886
Cash fund balance, end of year	\$ 0	0	2,235,571

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

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 BUDGETED SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014**

	SPECIAL REVENUE FUNDS		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:			
Local sources	\$ 457,795	457,795	521,824
State sources	11,552	11,552	10,656
Federal sources	346,233	346,233	396,052
Interest earnings	13,122	13,122	13,339
Total revenues	<u>828,702</u>	<u>828,702</u>	<u>941,871</u>
Expenditures:			
Instruction	22,000	22,000	21,993
Support services	77,000	77,000	76,691
Operation of non-instructional services	623,500	623,500	619,697
Facilities acquisitions and construction	1,241,000	1,241,000	1,240,570
Other outlays	100	100	80
Other uses	500	500	210
Noncategorical	1,650,900	1,650,900	
Total expenditures	<u>3,615,000</u>	<u>3,615,000</u>	<u>1,959,241</u>
Revenues over (under) expenditures	(2,786,298)	(2,786,298)	(1,017,370)
Other financing sources (uses):			
Lapsed appropriations			65,224
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>65,224</u>
Revenue and other sources over (under) expenditures and other uses	(2,786,298)	(2,786,298)	(952,146)
Cash fund balance, beginning of year	<u>2,786,298</u>	<u>2,786,298</u>	<u>2,786,298</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>1,834,152</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 DEBT SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	DEBT SERVICE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:			
Local sources	\$ 0	0	117
Other financing sources (uses):			
Tranfers in (out)	0	0	0
Revenues over (under) expenditures	0	0	117
Cash fund balance, beginning of year	0	0	0
Cash fund balance, end of year	\$ 0	0	117

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of the Hilldale Public Schools Independent District No. I-29 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

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

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

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

Governmental Fund Types

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

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

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds. The District did not maintain a co-op fund during the 2013-14 fiscal year.

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting - cont'd

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

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

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

Capital Projects Fund – The capital projects fund is the District’s bond fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities and acquiring transportation equipment.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. The terms “non-expendable” and “expendable” refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District only maintained a gifts and endowment fund during the 2013-14 fiscal year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

B. Fund Accounting – cont’d

organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

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

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

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

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

Account Groups

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

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

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

Memorandum Only - Total Column

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting

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

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

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

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

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

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

The District has not maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by generally accepted accounting principles, is not included in the combined financial statements – regulatory basis.

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting – cont'd

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

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

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

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

E. Assets, Liabilities and Fund Equity

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. The District is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the District. These property taxes are distributed to the District's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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 nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. The District had no interfund transfers in 2013-14.

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

2. CASH AND INVESTMENTS

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2014, was \$2,093,849. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2014, the District's investments consisted certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$4,620,076.

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

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

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2014.

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

4. GENERAL LONG-TERM DEBT

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

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

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

	Bonds Payable	Capital Leases	Totals
Balance, July 1, 2013	\$ -	58,397	58,397
Additions	580,000	-	580,000
Retirements	-	(36,398)	(36,398)
	<u>\$ 580,000</u>	<u>21,999</u>	<u>601,999</u>
Balance, June 30, 2014	<u>\$ 580,000</u>	<u>21,999</u>	<u>601,999</u>

A brief description of the outstanding long-term debt at June 30, 2014, is set forth below:

	<u>Amount Outstanding</u>
<u>Bonds Payable:</u>	
Building Bonds, dated 7-1-13, totaling \$580,000 .7% interest, due in one principal payment of \$580,000, due 7-1-15	\$ 580,000
<u>Capital Leases</u>	
Lease purchase for copiers, dated 1-14-10, totaling \$170,994, due in monthly principal and interest installments of \$3,190, final payment due 1-20-15	<u>21,999</u>
Total	<u>\$ 601,999</u>

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014

4. GENERAL LONG-TERM DEBT – cont’d

The annual debt service requirements for the retirement of the building bonds and capital leases, including the payment of principal and interest, are as follows:

Year Ending June 30	Principal	Interest	Total
2015	\$ 21,999	11,451	33,450
2016	580,000	4,060	584,060
Total	\$ 601,999	15,511	617,510

Interest paid on general long-term debt incurred during the 2013-14 fiscal year totaled \$1,882.

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan

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

Basis of Accounting

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

INDEPENDENT SCHOOL DISTRICT NO. I-29 , MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

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

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2013-14 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during this year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition the District is required to match the retirement paid on salaries that are funded with federal funds.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2014. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit www.ok.gov/TRS for all plan information.

Annual Pension Cost

The District's total contributions for 2014, 2013 and 2012 were \$1,079,466, \$914,195 and \$1,031,283, respectively.

6. RISK MANAGEMENT

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

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

6. RISK MANAGEMENT – cont'd

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

7. CONTINGENCIES

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2013-14 fiscal year. The revised OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expend more than \$500,000 in federal awards.

Litigation

School officials are aware of some pending or threatened litigation. However, the ultimate outcome and amount of compensation that could result from this litigation is not able to be determined.

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 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 and only the information below needs to be disclosed in the notes to the financial statements.

2013 Lease Revenue Notes

On October 1, 2013, the Muskogee Industrial Trust issued \$6,835,000 of Lease Revenue Bonds (Hilldale Public Schools Project) Series 2013, to provide funds for the constructing, equipping, repairing and remodeling of school buildings, acquiring furniture, fixtures and equipment and acquiring and improving school sites for the benefit of Hilldale School District. Also on October 1, 2013, the District, as lessor, entered into a ground lease agreement, for certain district property, with the Muskogee Industrial Trust. In addition, the District entered into a lease-purchase agreement, as lessee, with the Muskogee Industrial Trust. The lease purchase

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014

8. LEASE REVENUE BONDS – cont'd

agreement calls for ten (10) annual payments starting August 15, 2014. These payments will be made out of bond funds, pursuant to the issuance of series bonds. Hilldale Public Schools will gain ownership to the capital improvements incrementally as each payment is made. These bonds are shown as general long-term debt on the combined statement assets, liabilities, and fund equity under bonds payable as each series of bonds is sold.

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND
 FUND EQUITY - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
 JUNE 30, 2014**

<u>ASSETS</u>	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTALS (Memorandum Only)</u>	
			<u>2014</u>	<u>2013</u>
Cash	\$ (1,249,756)	152,387	(1,097,369)	224,466
Investments	3,013,609	100,404	3,114,013	2,700,000
Total Assets	<u>\$ 1,763,853</u>	<u>252,791</u>	<u>2,016,644</u>	<u>2,924,466</u>
 <u>LIABILITIES AND FUND EQUITY</u> 				
Liabilities:				
Warrants payable	\$ 852	20,665	21,517	20,701
Encumbrances	160,702	273	160,975	117,467
Total liabilities	<u>161,554</u>	<u>20,938</u>	<u>182,492</u>	<u>138,168</u>
Fund Equity:				
Cash fund balances	1,602,299	231,853	1,834,152	2,786,298
Total Liabilities and Fund Equity	<u>\$ 1,763,853</u>	<u>252,791</u>	<u>2,016,644</u>	<u>2,924,466</u>

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - ALL SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	BUILDING FUND	CHILD NUTRITION FUND	TOTALS (Memorandum Only)	
			2014	2013
Revenues:				
Local sources	\$ 237,103	284,721	521,824	237,768
State sources	3	10,653	10,656	12,160
Federal sources		396,052	396,052	364,457
Interest earnings	12,935	404	13,339	59,707
Non-revenue receipts				258,638
Total revenues	<u>250,041</u>	<u>691,830</u>	<u>941,871</u>	<u>932,730</u>
Expenditures:				
Instruction	21,993		21,993	66,621
Support services	76,691		76,691	221,436
Operation of non-instructional services		619,697	619,697	665,866
Facilities, acquisition and const. services	1,240,570		1,240,570	105,467
Other outlays		80	80	349
Other uses		210	210	48,980
Total expenditures	<u>1,339,254</u>	<u>619,987</u>	<u>1,959,241</u>	<u>1,108,719</u>
Revenues over (under) expenditures	(1,089,213)	71,843	(1,017,370)	(175,989)
Other financing sources (uses):				
Lapsed appropriations	64,787	437	65,224	7,007
Total other financing sources (uses)	<u>64,787</u>	<u>437</u>	<u>65,224</u>	<u>7,007</u>
Revenue and other sources over (under) expenditures and other uses	(1,024,426)	72,280	(952,146)	(168,982)
Cash fund balance, beginning of year	<u>2,626,725</u>	<u>159,573</u>	<u>2,786,298</u>	<u>2,955,280</u>
Cash fund balance, end of year	<u>\$ 1,602,299</u>	<u>231,853</u>	<u>1,834,152</u>	<u>2,786,298</u>

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014**

	BUILDING FUND			CHILD NUTRITION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:						
Local sources	\$ 210,153	210,153	237,103	\$ 247,642	247,642	284,721
State sources			3	11,552	11,552	10,653
Federal sources				346,233	346,233	396,052
Interest earnings	13,122	13,122	12,935			404
Total revenues	<u>223,275</u>	<u>223,275</u>	<u>250,041</u>	<u>605,427</u>	<u>605,427</u>	<u>691,830</u>
Expenditures:						
Instruction	22,000	22,000	21,993			
Support services	77,000	77,000	76,691			
Operation of non-instructional services				623,500	623,500	619,697
Facilities acquisitions and construction	1,241,000	1,241,000	1,240,570			
Other outlays				100	100	80
Other uses				500	500	210
Noncategorical	1,510,000	1,510,000		140,900	140,900	
Total expenditures	<u>2,850,000</u>	<u>2,850,000</u>	<u>1,339,254</u>	<u>765,000</u>	<u>765,000</u>	<u>619,987</u>
Revenues over (under) expenditures	(2,626,725)	(2,626,725)	(1,089,213)	(159,573)	(159,573)	71,843
Other financing sources (uses):						
Lapsed appropriations			64,787			437
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>64,787</u>	<u>0</u>	<u>0</u>	<u>437</u>
Revenue and other sources over (under) expenditures and other uses	(2,626,725)	(2,626,725)	(1,024,426)	(159,573)	(159,573)	72,280
Cash fund balance, beginning of year	<u>2,626,725</u>	<u>2,626,725</u>	<u>2,626,725</u>	<u>159,573</u>	<u>159,573</u>	<u>159,573</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>1,602,299</u>	<u>\$ 0</u>	<u>0</u>	<u>231,853</u>

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND
 FUND EQUITY - ALL FIDUCIARY FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2014**

	EXPENDABLE TRUST FUND	AGENCY FUNDS	TOTALS	
	GIFTS FUND	ACTIVITY FUNDS	(Memorandum Only)	
			2014	2013
<u>ASSETS</u>				
Cash	\$ 9,275	171,008	180,283	140,814
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Funds held for school organizations	\$	171,008	171,008	131,539
Total liabilities	0	171,008	171,008	131,539
Fund Equity:				
Cash fund balances	9,275	0	9,275	9,275
Total Liabilities and Fund Equity	\$ 9,275	171,008	180,283	140,814

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
COMBINED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Net</u> <u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Assets</u>					
Cash	\$ 131,539	714,662	0	675,193	171,008

Liabilities

Funds held for school organizations:

Lunch fund	\$ 0	285,869		285,869	0
Athletics	9,841	91,790		88,111	13,520
MS art club	23	0		0	23
Athletic club	3,930	6,548		6,122	4,356
Lower elem activity	6,761	21,058		14,862	12,957
Upper elem activity	8,351	11,402	57	12,298	7,512
Latch key program	15,624	46,893		36,341	26,176
Elementary library	249	0		0	249
Elem school yearbook	5,177	8,102		7,750	5,529
Elem teacher pop fund	2,010	3,903		3,101	2,812
MS activity	917	1,943	440	2,417	883
MS academic team	191	0		150	41
MS student council	974	1,493		1,218	1,249
MS home economics	350	6,496		5,222	1,624
MS computer	100	0		100	0
Band	788	4,149		4,511	426
MS english club	30	0	(30)	0	0
MS yearbook	30	0	(30)	0	0
MS newspaper	380	0	(380)	0	0
MS vending	4,517	23,695	(601)	21,324	6,287
MS science club	1,771	9,253	600	10,700	924
MS teens for Christ	458	804		804	458
MS drama	15	0		0	15
Elem special education	3,072	2,258		3,741	1,589
Elem pre-teens for Christ	57	0	(57)	0	0
HS activity	3,762	1,529	2,316	4,719	2,888
HS S.A.D.D.	134	0	(134)	0	0
HS key club	241	0	(241)	0	0
HS Nike	4,993	7,215		10,103	2,105
HS academic team	642	732		750	624

**INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
 COMBINED STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 ALL AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2014**

	Balance July 1, 2013	Additions	Net Transfers	Deletions	Balance June 30, 2014
HS national honor society	\$ 818	2,885		1,666	2,037
HS student council	1,809	7,515		4,745	4,579
HS computer club	831	86		314	603
HS advance placement	768	3,561		3,484	845
HS German club	562	2,348		2,538	372
HS Spanish club	486	1,294		1,347	433
HS math club	376	295		122	549
HS FCCLA	2,294	22,237		22,269	2,262
HS science	1,061	0		0	1,061
HS leadership	51	100		128	23
HS yearbook	471	14,139		2,199	12,411
HS astronomy	45	95		93	47
HS speech & drama	6,222	7,225		9,871	3,576
HS class of 2017	0	1,799		138	1,661
HS class of 2016	1,140	1,251		525	1,866
HS class of 2015	2,720	5,198		3,454	4,464
HS class of 2014	3,666	5,051		7,070	1,647
HS class of 2013	1,809	0	(1,809)	0	0
HS parking	957	1,116		213	1,860
Don Hendrix memorial fund	1,450	0		1,450	0
Wills guild	131	0	(131)	0	0
HS vending	8,367	38,276		29,238	17,405
HS concessions	12,136	52,675		50,563	14,248
HS cheerleaders	1,221	0		714	507
Vocal music	441	516		739	218
HS teens for Christ	704	40		75	669
Hilldale after prom party	518	0		0	518
Central admin activity	3,623	5,375		5,620	3,378
Central admin clearing	0	2,525		2,525	0
Elem needy children fund	294	0		0	294
Asian culture club	22	0		0	22
HS fiction addiction	288	3,928		3,880	336
HS business pioneers club	870	0		0	870
Total Liabilities	\$ 131,539	714,662	0	675,193	171,008

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor's/Pass-through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Balance at 7/01/2013</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 6/30/2014</u>
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Title VII-Part A, Indian Education	84.060A	S060A130405	\$ 151,467	0	151,467	149,386	0
<u>Passed Through State Department of Education:</u>							
Title I-Part A, Improving Basic Programs	84.010		255,370		142,350	222,100	79,750
Title I-Part A, Improving Basic Programs 2012-13 - Note 1	84.010			100,024	100,024		
Title II-Part A, Teacher & Principal Training	84.367		72,215		24,665	45,576	20,911
Title II-Part A 2011-12 - Note 1	84.367			16,044	16,044		
* Special Education, Flowthrough, P.L. 105-17	84.027		360,608		242,390	315,346	72,956
Special Education, Flowthrough 2012-13 - Note 1	84.027			1,209	1,209		
* Special Education, Preschool, Ages 3-5, P.L. 105-17	84.173		8,547		7,166	6,759	1,381
Subtotal			<u>696,740</u>	<u>117,277</u>	<u>533,848</u>	<u>589,781</u>	<u>174,998</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education:</u>							
* Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
National School Lunch Program - Note 2	10.555				45,852	45,852	
<i>Non-Cash Assistance Subtotal</i>					<u>45,852</u>	<u>45,852</u>	
Cash Assistance:							
National School Lunch Program	10.555				318,709	330,991	
School Breakfast Program	10.553				77,343	95,880	
<i>Cash Assistance Subtotal</i>					<u>396,052</u>	<u>426,871</u>	
<i>Total For Program (Cluster)</i>					<u>441,904</u>	<u>472,723</u>	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130		41,640		3,689	22,383	18,694
Johnson O'Malley 3 month	15.130		32,511		32,511	32,511	
Johnson O'Malley 2012-13 - Note 1	15.130			6,627	6,627		
Subtotal			<u>74,151</u>	<u>6,627</u>	<u>42,827</u>	<u>54,894</u>	<u>18,694</u>
Total Federal Assistance			<u>\$ 922,358</u>	<u>123,904</u>	<u>1,170,046</u>	<u>1,266,784</u>	<u>193,692</u>

* Major federal programs

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

Note 2 - Commodities received by the District in the amount of \$45,852 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 3 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2014

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Ohio Casualty Insurance Co.	Custodian of Activity and Lunch	1594583	\$ 2,000	7/1/13 - 7/1/14
	Encumbrance Clerk	1594583	2,000	7/1/13 - 7/1/14
	Minutes Lunch Fund	1594583	2,000	7/1/13 - 7/1/14
	Administrative Asst. Superintendent	1594583	2,000	7/1/13 - 7/1/14
	Custodian of Activity and Lunch	1594583	2,000	7/1/13 - 7/1/14
	Superintendent	1594583	100,000	7/1/13 - 7/1/14
	Treasurer	69719384	100,000	7/1/13 - 7/1/14

INDEPENDENT SCHOOL DISTRICT NO. I-29, MUSKOGEE COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2013 TO JUNE 30, 2014

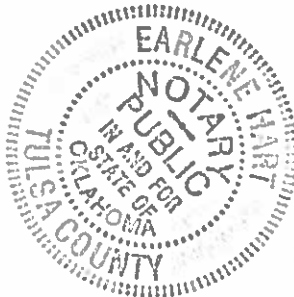
State of Oklahoma)
) ss
County of Tulsa)

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Hilldale Public Schools for the audit year 2013-14.

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

By  _____
Authorized Agent

Subscribed and sworn to before me
This 12th day of December, 2014



 _____
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2016
Commission No. 00008621