

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

**HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16,
CHEROKEE COUNTY, OKLAHOMA**

JUNE 30, 2021

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2021

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HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
JUNE 30, 2021

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3-4
Independent Auditor's Report	5-6
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements - Regulatory Basis – Performed in Accordance with Government Auditing Standards	7-8
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with Uniform Guidance	9-10
Disposition of Prior Year's Significant Deficiencies and Material Instances of Non-Compliance	11
Schedule of Audit Results, Findings and Questioned Costs	12-20
Combined Financial Statements – Regulatory Basis	
Combined Statement of Assets, Liabilities and Fund Balance All Fund Types and Account Groups – Regulatory Basis	21
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types and Expendable Trusts – Regulatory Basis	22
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	23-25
Notes to Combined Financial Statements - Regulatory Basis	26-42

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
JUNE 30, 2021

Page No.

Combining Financial Statements – Regulatory Basis

Combining Statement of Assets, Liabilities and Fund Balance – All Special Revenue Funds – Regulatory Basis	43
Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Special Revenue Fund Types – Regulatory Basis	44
Combining Statement of Changes in Assets and Liabilities – Agency Funds – Regulatory Basis	45
Schedule of Expenditures of Federal Awards – Regulatory Basis	46
Schedule of Statutory, Fidelity and Honesty Bonds	47
Schedule of Accountant’s Professional Liability Insurance Affidavit	48



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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Hulbert School District Number I-16
Hulbert, Cherokee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Hulbert School District Number I-16, Hulbert, Cherokee County, Oklahoma (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Adverse Opinion on Regulatory Basis of Accounting

As described in finding 2021-1 in the accompanying schedule of audit results, findings and questioned costs, the District had misappropriation of assets that were deemed to be material to the fair presentation of the financial statements.

In addition, 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.

Adverse Opinion on Regulatory Basis of Accounting

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph do not 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, 2021, 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2021 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

November 23, 2021



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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**

The Honorable Board of Education
Hulbert School District Number I-16
Hulbert, Cherokee 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 Hulbert School District Number I-16, Hulbert, Cherokee County, Oklahoma (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 23, 2021, 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. Our report was also adverse for the misappropriation of assets and 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results, findings, and questioned costs, we identified significant deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiencies 2021-1, 2021-2, 2021-3, 2021-4, 2021-5, and 2021-6, described in the accompanying schedule of audit results, findings, and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed six instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. These items, identified as items 2021-1, 2021-2, 2021-3, 2021-4, 2021-5 and 2021-6 are shown in the accompanying schedule of audit results, findings, and questioned costs. We also noted certain immaterial instances of non-compliance which are described in the accompanying management letter.

District's Response to Findings

The District's response to the findings identified in our audit are described in the attached corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit on the financial statements and accordingly, we express no opinion on it.

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.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

November 23, 2021



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

The Honorable Board of Education
Hulbert School District Number I-16
Hulbert, Cherokee County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Hulbert School District Number I-16, Hulbert, Cherokee County, Oklahoma (District)'s, compliance with the types of compliance requirements described in the *OMB 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, 2021. 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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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, 2021.

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 Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

November 23, 2021

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2021

FINDING 2020-1 – FINACIAL RECOCNILIATIONS

Condition: During our estimate of needs and final audit work, we observed that the bank balances were not properly reconciled to the accounting records each month, and the “Summary of Financial Activities” (ADPC report) had cash/investments balances incorrectly assigned to prior fiscal years. Because of this, approximately \$16,270 of unidentified adjustments were made to the financial statements in order to reconcile, and incorrect OCAS financial information was submitted to the State Department of Education. We also noted several instances where the treasurer coded incoming revenue items to the incorrect revenue source code.

Current Status: This finding continued in the 2020-21 fiscal year (see Finding 2021-5).

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Section 1 – Summary of Auditor’s Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and an adverse opinion was issued for a misappropriation of assets and for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. The audit identified six significant deficiencies (items 2021-1, 2021-2, 2021-3, 2021-4, 2021-5, 2021-6), considered to be material weaknesses, and did not report any significant deficiencies not considered to be material weaknesses in the internal controls over financial reporting.
3. The audit disclosed six instances of noncompliance (items 2021-1, 2021-2, 2021-3, 2021-4, 2021-5, 2021-6) which are material to the financial statements.
4. The audit did not identify any material weaknesses and did not report any significant deficiencies not considered to be material weaknesses in the internal controls over major programs.
5. An unmodified report was issued on the compliance for major programs in conformity with the regulatory basis of accounting.
6. The audit disclosed no audit findings which are required to be reported under the Uniform Guidance, 2 CFR 200.516(a).
7. Programs determined to be major were the COVID-19 Education Stabilization Fund-ESSER/CARES Act Programs (84.425D) which were not clustered in determination, and the Child Nutrition Programs (10.555, 10.559) which were clustered in determination.
8. The dollar threshold used to determine between Type A and Type B programs was \$750,000.
9. The auditee 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:

FINDING 2021-1 – Misappropriation of Assets

Condition: From information provided by the District, interviews performed, and software accounting reports obtained, it appears that the treasurer, Leslie Mack, and the encumbrance clerk, Becky Morehead, may have committed fraud by misappropriation of assets. This potential embezzlement of District funds appears to have been accomplished by issuing additional payroll payments in excess of their approved employment contract. These extra payments were occasionally made by check, but in most cases paid by direct deposit into their personal bank accounts on record. Further, there appears to have been two additional District employees, Charles York and Luke Morehead, who may have benefited from this payroll scheme. Leslie Mack was the District’s payroll clerk and was in charge of all payroll accounting functions.

We reviewed all direct deposit payroll payments for the year and confirmed that each payment cleared the District’s bank account and were in fact issued to the bank account on record for each employee. Comparing these payments to the employment contracts provided, overpayments were frequently made and additional payrolls cycles were initiated during the year with no legitimate purpose. District payroll is typically processed once per month, however, we observed some months where an additional seven payroll payments were made to these employees. In total, there were approximately 75 payroll payments made to Leslie Mack and 52 payments made to Becky Morehead in the 2020-21 fiscal year. These unauthorized payrolls were only issued to one or all four of the employees in question. Below is a summary of payments issued during the 2020-21 fiscal year and the contract amount for the year:

	Net Paid Amount	Less Contract Amount	Payments in Excess of Contract
Leslie Mack	\$ 227,263.81	\$ (45,850.00)	\$ 181,413.81
Becky Morehead	117,701.88	(39,650.00)	78,051.88
Total	<u>\$ 344,965.69</u>	<u>\$ (85,500.00)</u>	<u>\$ 259,465.69</u>

The above contract amounts for Leslie Mack and Becky Morehead are base salary amounts, including their approved extra duty assignments, and do not include District payroll burdens. We believe it is important to note that the paid amounts reported above are the *net* amounts paid to each employee. These figures do not include the total payroll cost to the District for each employee (i.e. Teachers Retirement burdens, District share of FICA and Medicaid, and other benefits). Software reports for the 2020-21 fiscal year show additional District matching costs of approximately \$100,000 for Leslie Mack and Becky Morehead.

We did not observe an employment contract for Luke Morehead, however, the superintendent informed us that he was a substitute teacher and should not have been on payroll after November 2020. We observed 25 different payroll payments totaling \$7,303.87 (net) made to Luke Morehead from October 2, 2020, through June 30, 2021. These payroll payments were often initiated on the same extra payroll runs that were made for Leslie Mack and Becky Morehead.

We observed 52 separate payroll payments to Charles York totaling \$82,367.53 (net). These payments were made out of both the general fund and the building fund. The employment contract for Charles York had a base salary amount of \$19,200. There was also an extra duty assignment of \$5,600 for bus driving. Using these contract amounts, there are \$57,567.53 (net) in overpayments made to Charles York in the 2020-21 fiscal year. These payroll payments were often initiated on the same extra payroll runs that were made for Leslie Mack and Becky Morehead.

It appears that this apparent misappropriation began in the 2019-20 fiscal year, however, payroll contracts and payroll reports reviewed during the 2019-20 audit were incomplete or not provided. A three-year comparison of the taxable salary amounts on newly provided payroll reports are as follows:

Fiscal Year Earnings Report			
	2018-19 FY	2019-20 FY	2020-21 FY
Leslie Mack	\$ 45,268.20	\$ 86,740.96	\$ 249,379.31
Becky Morehead	41,081.84	61,661.20	131,403.70
Charles York	-	29,435.95	98,430.49
Totals	<u>\$ 86,350.04</u>	<u>\$ 177,838.11</u>	<u>\$ 479,213.50</u>

We also reviewed the payroll payments issued during the first four months of the 2021-22 (current) fiscal year. It appears that from July 1, 2021 to October 31, 2021 net payroll payments to Leslie Mack totaled \$76,677.73 and net payroll payments to Becky Morehead totaled \$40,591.79, which are far in excess of anticipated amounts for that period.

From July 1, 2019 through October 31, 2021, we estimate a possible misappropriation of District funds in excess of \$500,000.

We reported this payroll scheme to the superintendent immediately upon discovery, and both employees have since submitted their resignation. Charles York and Luke Morehead were not employed by the District during the 2021-22 fiscal year, and we observed no payments issued to these individuals during our review of these four months.

It also appears that the District's fund balances became negative during the 2020-21 fiscal year as a result of this misappropriation (see Finding 2021-2).

Criteria: School Districts are required, per Oklahoma Statute Title 70§5-135, to implement internal controls and procedures over initiating, recording, and paying for all purchases, salaries, wages, or contractual obligations.

Cause / Effect: The inherent limitations resulting from a small number of employees performing almost all the accounting functions, that would normally be divided among employees were a larger number available, prevent a proper segregation of duties. Because most accounting functions were performed by just two individuals, and it appears collusion between the two employees existed, many controls the District had in place were able to be circumvented. Further, monthly treasurer reports and activity fund reports were not consistently presented to the School Board for approval or review. Only three months of the fiscal year had a treasurer report included in the Board minutes, however, the report was not detailed and did not include any supporting documentation. Board oversight is an important financial control for school districts and this is particularly true for small districts with a lack of segregation of duties.

Recommendation: We recommend that the District enforce its current procedures and implement new procedures immediately to address the aforementioned conditions. We recommend that the payroll function have at least two employees involved in the process, one who enters the payroll information and one who processes the payroll. Further, payroll encumbrances should be carefully reviewed at each board meeting before approval. Updated, year-to-date payroll encumbrance reports should be provided to the Board at every meeting. The Board should also approve check numbers at each meeting and compare them to the checks that are being signed. In addition, if the Board elects to use signature stamps, the stamps should remain in the possession of each board member or an independent party who does not have access to the checks. Payroll registers should also be reviewed by an individual independent from the payroll process, which could be an employee or a board member.

We understand that this matter has already been reported to law enforcement and we recommend the District continue to work with these officials so that appropriate action can be taken regarding this apparent fraudulent activity.

Response: (attached)

FINDING 2021-2 – Exceeded Appropriations / Deficit Fund Balances

Condition: It appears that the aforementioned misappropriation of assets also resulted in the District exceeding its approved appropriations and ending the fiscal year with a deficit fund balance in the General, Building, and Child Nutrition Funds. The District's 2020-21 approved appropriations and expenditures are as followed:

Fund	Approved Appropriations	Total Expenditures	Amount Exceeded
General	\$ 4,893,338.88	\$ 5,490,236.00	\$ (596,897.12)
Building	386,173.35	625,211.00	(239,037.65)
Child Nutrition	122,753.84	273,294.00	(150,540.16)
Total	<u>\$ 5,402,266.07</u>	<u>\$ 6,388,741.00</u>	<u>\$ (986,474.93)</u>

Criteria: Oklahoma State Statutes prohibit a school from expending more than their approved appropriations. School districts should also maintain a positive fund balance at all times.

Cause / Effect: Proper procedures were not in place to monitor budgeted appropriations and actual expenditures. The District was in violation of state law when each fund's expenditures exceeded the approved appropriation balance. In addition, since there is a deficit fund balance, future fiscal year revenues will now have to pay for the previous year's obligations. The District's June 30, 2021 fund balances are as follows:

Fund	Fund Balance
General	\$ (19,885.30)
Building	(142,186.52)
Child Nutrition	(41,740.46)
Sinking	79,650.49
Total	<u>\$ (124,161.79)</u>

Recommendation: We recommend that the District implement procedures to ensure that only the original legal appropriations set forth in the Estimate of Needs plus any added appropriations, which have been properly approved, be included in the District's encumbrance and appropriations ledger. The appropriations ledger should be reconciled periodically with expenditure reports to ensure that expenditures do not exceed appropriations at any time, in any fund, during the year, and to ensure that the fund balance does not end the year with a deficit, as required by Oklahoma Statutes.

Response: (attached)

FINDING 2021-3 – Activity Funds Deposits

Condition: After the resignation of the two employees in the business office, undeposited activity funds were located in a locked file cabinet. A reconciliation of these funds was performed by the District and there was an estimated \$14,808 of unaccounted funds that were accumulated. When testing the activity fund receipting procedures during our audit, we noted there is not a clear audit trail from when collections are made to the corresponding bank deposit, therefore, we are unable to determine how much activity fund collections could be missing. When comparing the sponsor receipts to the amounts deposited into that subaccount, there were missing deposits for 3 of the 4 subaccounts we selected for testing. It does not appear that the proper receipting procedures were being followed by the activity fund custodian (Becky Morehead) and it was evident that deposits were not being made in a timely manner. In addition, it did not appear that sponsors were reconciling their own sub-account balances, nor did the activity fund custodian provide them with their account balance on a regular basis. We also noted that the custodian's activity ledger was not properly reconciled to the bank balance at the end of each month.

Criteria: Oklahoma Statutes require that pre-numbered receipts be issued each year for every account, and that deposits be made daily if over \$100, but never less than once per week regardless of amount. Further, the District's accounting software should always be reconciled to the bank statements to ensure accurate and timely reporting of financial information and controls should be in place to limit the District's risk of lost or stolen funds.

Cause / Effect: Proper procedures were not being followed for the activity fund functions. In addition, due to sponsors not reconciling their own account balances, they were not aware if their collections were actually being deposited. Further, since the accounts were not reconciled monthly, an unidentified adjustment had to be made to the activity fund.

Recommendation: We recommend that all activity funds collected be receipted in pre-numbered receipt books, with a receipt copy being issued to any student or patron from whom money is received, and all receipt books be kept on file for review. Further, we recommend that sponsor receipt books be checked in/out to sponsors at the beginning/end of each year and a log be used to record the checking in/out of receipt books. In addition, when sponsors turn over daily collections to the activity fund custodian, the sponsor should be provided a receipt. We recommend that the activity fund collection/receipts processes and procedures be reexamined and improved upon. Further, we recommend that the activity fund duties be performed in a timely manner in order to ensure financial information is accurately stated. We also recommend, at the end of each month, that all deposits in transit and all checks outstanding be clearly identified and detailed on each reconciliation, and that a list of outstanding checks, giving numbers and amounts, be included. In addition, the bank statements should be reconciled with the custodian's ledger at the end of each month. Once reconciled, each sub-account balance should be

provided to the sub-account sponsor and the sponsor should verify that all receipts were deposited and all outstanding obligations have been paid.

Response: (attached)

FINDING 2021-4 – Board Minutes

Condition: It did not appear that the District provided the County Clerk with a list of regular meeting dates for the 2021 calendar year. While reviewing the business conducted at each meeting, the Board was not presented with detailed financial information each month.

Criteria: Oklahoma Statutes require that each governing board provide written notice to the county clerk of all upcoming meetings for each calendar year by December 15th of the previous year. Board minutes should also provide sufficient detail concerning the business to be transacted.

Cause / Effect: Since the 2021 meeting dates were not submitted by December 15, 2020, all 2021 Board meetings should be held as special meetings and notice should be sent for all special meetings at least 48 hours prior to the meeting. The District was not in compliance with the Open Meeting Act for these meetings. In addition, since the Board was not approving detailed financial reports at each meeting, the Board was not aware of the declining fund balances and the misappropriation of assets described above (Finding 2021-1).

Recommendation: We recommend that all board minutes and agenda be properly filed and made available for review. Further, we recommend that the board of education review the open meeting requirements and follow the applicable procedures detailed therein. We also recommend that more detailed Treasurer’s Reports and Activity Fund Reports from the accounting software be included and approved in the Board minutes each month. These reports should also include supporting documentation (i.e. bank statements, outstanding check lists, fund balances).

Response: (attached)

FINDING 2021-5 – Financial Reconciliations

Condition: During our Estimate of Needs and final audit work, we observed that the bank balances were not properly reconciled to the accounting records each month, and the “Summary of Financial Activities” (ADPC report) had cash/investments balances incorrectly assigned to prior fiscal years. Because of this, unidentified adjustments were made to the financial statements in order to reconcile, and incorrect OCAS financial

information was submitted to the State Department of Education. We also noted several instances where the treasurer coded incoming revenue items to the incorrect revenue source code. This is a repeat finding.

Criteria: A good system of internal control and sound accounting practices require that bank statements be reconciled to the accounting records in a timely manner, and as required by Oklahoma Statutes. In addition, all transactions must be properly coded, according to OCAS, and the data submitted to the State Department of Education must match the estimate of needs and the audited financial statements.

Cause/Effect: The District did not have procedures in place to adequately review and reconcile revenues and expenditures. Failure to reconcile the bank statements to the accounting records in a timely manner increases the risk of error, fraud, and inaccurate financial information, which will not be detected in a timely manner. This also increases the risk of financial information not being coded to the proper OCAS code, therefore misreporting financial information to the Oklahoma State Department of Education. While preparing the District's estimate of needs and while reviewing the District's financial statements, we noted several OCAS discrepancies. These included errors in the codes used and in the amounts reported via OCAS. The fund balances reported did not match the amounts on the estimate of needs or in the financial statements. In addition, unidentified adjustments were made to the financial statements in order to reconcile to the bank balances.

Recommendation: We recommend that procedures be implemented that would require the bank statements be reconciled monthly and that an individual that is independent of the process review the reconciliations for accuracy and completeness. In addition, the district treasurer or other school personnel should review their OCAS coding to ensure it is correct.

Response: (attached)

FINDING 2021-6 – Purchase Orders

Condition: During the review of the appropriated and activity fund expenditures, we made the following observations:

- Most of the purchase orders were not encumbered against available appropriations prior to the obligations being incurred
- Most of the invoices were not signed received by a District employee
- There was a large amount of purchases where we were unable to locate any supporting documentation or could only locate partial documentation
- Activity fund checks were handwritten instead of being ran through the accounting software.

Criteria: All District obligations should be encumbered prior to the actual purchase of materials or services, as required by Oklahoma Statutes. All expenditures should be properly authorized, adequate support be obtained and attached to the purchase order. Adequate support would include original invoices with vendor name, address, phone number and itemized in sufficient detail, prior to issuing payment. A non-commercial vendors claim should be completed and used in lieu of a vendor not providing an invoice

Cause / Effect: Proper procedures were not in place over the accounts payable function for both the appropriated and activity fund purchases. This increases the risk that a misappropriation of assets will occur and not be detected whether due to error or fraud.

Recommendation: We recommend that the District enforce policies and procedures which require that purchase orders be encumbered prior to the obligation being incurred, proper approval of the expenditure, original documentation be obtained, invoices be signed as received, the face of the purchase order reflect the total amount actually paid, and the check number(s) be recorded on the purchase order. Further, we recommend that all purchase orders have either original invoices or non-commercial vendor invoices attached as proof of indebtedness.

Response: (attached)

Section 3 – Findings and questioned costs for federal awards:

NONE



Hulbert Public Schools

316 S Rider Lane, Hulbert, OK 74464

918-772-2501

Jolyn Choate, Superintendent

Chad Botts, HS/MS Principal

Taf Morphis, Elementary Principal



RESPONSES

- 2021-1 Upon discovery of this payroll scheme, per the District's attorney, the two employees, Leslie Mack, Treasurer, and Becky Morehead, Encumbrance/Activity Clerk, were given the opportunity to resign, effective immediately. The authorities were notified, and the District will continue to work with officials regarding this matter. The District had noted the limitations resulting from a small number of employees performing almost all the accounting functions, and had hired a 3rd person for this very reason, providing segregation of duties. However, the District will enforce the current procedures and implement the following new procedures to address the aforementioned conditions: 1) payroll and treasury will be outsourced to prevent collusion between employees, allowing the payroll registers to be reviewed by an outside independent source, 2) monthly treasurer reports and activity fund reports along with a year-to-date payroll encumbrances report will be carefully reviewed at each board meeting before approval, 3) the Board will approve check numbers monthly, comparing them to the checks being signed, finally, 4) Signature stamps, if used, will remain in the possession of the Board members.
- 2021-2 The District will implement the following procedure to ensure that only the original legal appropriations set forth in the Estimate of Needs plus any added appropriations, which have been properly approved, be included in the District's encumbrance and appropriations ledger: 1) the appropriations ledger will be reconciled quarterly with expenditure reports to ensure that expenditures do not exceed appropriations at any time, in any fund, during the year, and to ensure that the fund balances does not end the year with a deficit.
- 2021-3 The District will ensure that the proper procedures are followed including: 1) all activity funds collected be receipted in pre-numbered receipt books, with a receipt copy being issued to any student or patron from whom money is received, 2) all receipt books be kept on file for review, 3) sponsor receipt books will be checked in/out to sponsors at the beginning/end of each year and a log be used to record the checking in/out of receipt books, 4) when sponsors turn in collections to the activity fund custodian, the sponsor will receive a receipt, 5) activity fund duties will be performed daily in order to ensure financial information accurately, 6) the custodian will identify all deposits in transit and all checks outstanding be clearly identified and detailed on each reconciliation, and a list of outstand checks, giving the numbers and amounts, 7) the bank statements will be reconciled with the custodian's ledger at the end of each month, finally, 8) each sub-account balance will be provided to the sub-account sponsor, the sponsor will verify that all receipts were deposited and all outstanding obligations have been paid.
- 2021-4 The District will ensure that regular 2022 meeting dates are submitted by December 15, 2021 and will implement the following procedures: 1) all board minutes and agendas be properly filed and made available for review, 2) the board of education will review the open meeting requirements and follow the applicable procedures detailed therein, 3) a detailed Treasurer's Report and Activity Funds Report from the accounting software will be included and approved in the Board minutes each month (to include the following supporting documentation: bank statements, outstanding check lists, and fund balances).

Pride in the RIDE

2021-5 The District will implement the following procedures to provide a good system of internal control and sound accounting practices to include: 1) outsourcing payroll and treasury to ensure that bank statements be reconciled to the accounting records in a timely manner, 2) the District's school personnel will review their OCAS coding to ensure it is correct.

2021-6 The District will enforce the following policies and procedures in regards to purchase orders: 1) all purchase orders will be required to be encumbered prior to the obligation being incurred, 2) proper approval of the expenditure obtained before purchase, 3) original documentation be obtained, 4) all invoices be signed as received by a school employee, 5) the face of the purchase order reflect the total amount actually paid, 6) the check number(s) be recorded on the purchase order, finally, 7) all purchase orders have either original invoices or non-commercial vendor invoices attached as proof of indebtedness.

Jolyn Choate, M. Ed.
Superintendent
Hulbert Public Schools



OKLAHOMA Education

Audit Acknowledgement

Audit Year: 2020-2021

District Name Hulbert Independent Schools

District Number I-16

County Name Cherokee County

County Code 11

The annual independent audit was presented to the Board of Education in a meeting conducted in accordance with the Open Meeting Act 25 O.S. Section 301-314 on _____.

Date of Meeting

The audit was presented by Bledsoe, Hewett & Gullekson, CPAs, PLLLP

(Independent Auditor)

(Independent Auditor's Signature)

The School Board acknowledges that as the governing body of the district, responsible for the district's financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgement form, will be sent to the State Board of Education and the State Auditor and Inspector within 30 days from its presentation, as stated in 70 O.S. § 22-108:

"The district board of education shall forward a copy of the auditor's opinions and related financial statements to the State Board of Education and the State Auditor and Inspector within thirty (30) days after receipt of the audit."

Signature of the Board of Education:

Superintendent

Board of Education Vice President

Board of Education President

Board of Education Member

Board of Education Member

Board of Education Member

Board of Education Member

Subscribed and sworn before me on _____

My Commission expires _____

(Notary Public)

COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
 JUNE 30, 2021

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES		ACCOUNT GROUP		TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	AGENCY FUNDS	GENERAL	LONG-TERM DEBT			
Cash	\$ 760,324	(74,011)	79,650	120,378					886,341
Amounts available in debt service						79,650			79,650
Amount to be provided for retirement of general long-term debt							518,835		518,835
Total Assets	\$ 760,324	(74,011)	79,650	120,378		598,485			1,484,826

LIABILITIES AND FUND BALANCE

Liabilities:									
Warrants payable	\$ 780,209	109,916							890,125
Funds held for school organizations				120,378					120,378
Long-term debt									
Bonds payable						550,000			550,000
Capital lease						48,485			48,485
Total liabilities	780,209	109,916	0	120,378		598,485			1,608,988
Fund Balance:									
Restricted	(19,885)	(183,927)	79,650						(104,277)
Unassigned	(19,885)	(183,927)	79,650	0					(19,885)
Cash fund balances									(124,162)
Total Liabilities and Fund Balance	\$ 760,324	(74,011)	79,650	120,378		598,485			1,484,826

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	
Revenues Collected:				
Local sources	\$ 633,414	83,366	130,752	847,532
Intermediate sources	89,585			89,585
State sources	3,133,285	2,658	1	3,135,944
Federal sources	801,472	506,666		1,308,138
Interest earnings	1,309			1,309
Total revenues collected	<u>4,659,065</u>	<u>592,690</u>	<u>130,753</u>	<u>5,382,508</u>
Expenditures:				
Instruction	3,460,240	590,065		4,050,305
Support services	1,994,684	273,294		2,267,978
Operation of non-instructional services	8,944	35,147		44,091
Facilities acquisition & construction	21,468			21,468
Other outlays:				
Debt service requirements			144,500	144,500
Total expenditures	<u>5,485,336</u>	<u>898,506</u>	<u>144,500</u>	<u>6,528,342</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(826,271)	(305,816)	(13,747)	(1,145,834)
Other financing sources (uses):				
Adjustments to prior year encumbrances	245,964	910	0	246,874
Excess of revenues collected over (under) expenditures	(580,307)	(304,906)	(13,747)	(898,960)
Cash fund balances, beginning of year	<u>560,422</u>	<u>120,979</u>	<u>93,397</u>	<u>774,798</u>
Cash fund balances, end of year	<u>\$ (19,885)</u>	<u>(183,927)</u>	<u>79,650</u>	<u>(124,162)</u>

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Prior Year (Memorandum Only)
Revenues Collected:				
Local sources	\$ 510,585	510,585	633,414	562,889
Intermediate sources	77,352	77,352	89,585	84,311
State sources	3,205,761	3,205,761	3,133,285	3,340,745
Federal sources	539,219	539,219	801,472	447,042
Interest earnings			1,309	9,743
Non revenue receipts				3,806
Total revenues collected	<u>4,332,917</u>	<u>4,332,917</u>	<u>4,659,065</u>	<u>4,448,536</u>
Expenditures:				
Instruction	4,893,339	4,893,339	3,460,240	3,145,320
Support services			1,994,684	1,576,312
Operation of non-instructional services			8,944	
Facilities acquisition & construction			21,468	
Other uses				8,976
Total expenditures	<u>4,893,339</u>	<u>4,893,339</u>	<u>5,485,336</u>	<u>4,730,608</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(560,422)	(560,422)	(826,271)	(282,072)
Other financing sources (uses):				
Adjustments to prior years encumbrances	<u>0</u>	<u>0</u>	<u>245,964</u>	<u>(9,698)</u>
Excess of revenue collected over (under) expenditures	(560,422)	(560,422)	(580,307)	(291,770)
Cash fund balance, beginning of year	<u>560,422</u>	<u>560,422</u>	<u>560,422</u>	<u>852,192</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>(19,885)</u>	<u>560,422</u>

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	SPECIAL REVENUE FUNDS			Prior Year (Memorandum Only)
	Original Budget	Final Budget	Actual	
Revenues Collected:				
Local sources	\$ 73,002	73,002	83,366	108,446
State sources	1,514	1,514	2,658	3,072
Federal sources	313,433	313,433	506,666	562,470
Total revenues	<u>387,949</u>	<u>387,949</u>	<u>592,690</u>	<u>673,988</u>
Expenditures:				
Support services	386,174	386,174	590,065	480,659
Operation of non-instructional services	122,754	122,754	273,294	314,198
Facilities acquisition & construction services			35,147	
Other uses				278
Total expenditures	<u>508,928</u>	<u>508,928</u>	<u>898,506</u>	<u>795,135</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(120,979)	(120,979)	(305,816)	(121,147)
Other financing sources (uses):				
Adjustment to prior years encumbrances	<u>0</u>	<u>0</u>	<u>910</u>	<u>141</u>
Excess of revenues collected over (under) expenditures	(120,979)	(120,979)	(304,906)	(121,006)
Cash fund balances, beginning of year	<u>120,979</u>	<u>120,979</u>	<u>120,979</u>	<u>241,985</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>(183,927)</u>	<u>120,979</u>

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -
 BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Prior Year (Memorandum Only)
Revenues Collected:			
Local sources	\$ 122,095	130,752	138,907
State sources		1	91
Total revenues collected	122,095	130,753	138,998
Requirements:			
Bonds	130,000	130,000	130,000
Coupons	14,500	14,500	17,100
Total expenditures	144,500	144,500	147,100
Excess of revenues collected over (under) expenditures	(22,405)	(13,747)	(8,102)
Cash fund balance, beginning of year	93,397	93,397	101,499
Cash fund balance, end of year	\$ 70,992	79,650	93,397

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

NOTES TO COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Hulbert Public Schools Independent District, No. I-16 (the “District”), have been prepared in conformity with another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education as authorized by Oklahoma Statutes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with the accounting principles generally accepted in the United States of America. The District’s accounting policies are described in the following notes that are an integral part of the District’s financial statements.

A. Reporting Entity

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

The governing body of the District is the Board of Education composed of five elected members. The appointed superintendent is the executive officer of the District. The Board, constituting an on-going entity, is the level of government, which has governance responsibilities over all activities, related to public elementary and secondary school education within the jurisdiction of the local independent school district. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

A. Reporting Entity – cont'd

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.

B. Measurement Focus

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.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus - cont'd

Special Revenue Funds – Special revenue funds account for revenue sources that are restricted to expenditures for specific purposes. The special revenue funds typically include the building, co-op and child nutrition funds. The district did not maintain a co-op fund during the 2020-21 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.

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. The District did not maintain any capital project funds during the 2020-21 fiscal year.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

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

B. Measurement Focus – cont'd

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 typically include the gifts and endowments fund. The District did not maintain any expendable trust funds during the 2020-21 fiscal year.

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

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.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

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

B. Measurement Focus – cont'd

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 accounting principles generally accepted in the United States. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

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

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as inventory assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the basic financial statements.
- Compensated absences are recorded as expenditures when paid and not recorded as a liability.
- Fixed assets are recorded in the General Fixed Asset Account Group and not in the basic financial statements. Fixed assets are not depreciated.

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting and Presentation – cont'd

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned and expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from accounting principles generally accepted in the United States.

D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. The Board of Education must request an initial temporary appropriations budget from their county excise board before June 30. The District uses the temporary appropriation amounts as their legal expenditure limit until the annual estimate of needs is completed.

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. No later than October 1, each board of education shall prepare a financial statement and estimate of needs to be filed with the applicable county clerk and the State Department of Education.

The 2020-21 Estimate of Needs was not amended by any supplemental appropriations. Any supplemental amendments must be approved by the county excise board.

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.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Balance

Cash and cash equivalents – The District considers all cash on hand, demand deposit accounts, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments – The District considers investments of direct obligations of the United States government and agencies, certificates of deposits, savings accounts or savings certificates with maturities of greater than three months. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2021, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The District has not maintained a record of general fixed assets, and, accordingly, a General Fixed Assets Account Group required by the regulatory basis of accounting prescribed by the Oklahoma State Department of Education is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

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.

Compensated Absences – The District provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. District policy allows certified employees to accumulate such days to a maximum number of days. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources had not been reported as an expenditure of the governmental fund that will pay it since the financial statements have been prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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.

Fund Balance – In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amount in the spendable fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purposes in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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. 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.

Non-Monetary Transactions – The District receives commodities from the U.S. Department of Agriculture. The value of these commodities has been included in the Schedule of Expenditures of Federal Awards; however, they have not been included in the financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

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.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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.

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

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

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

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

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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. There were no transfers made during the 2020-21 fiscal year.

2. CASH AND INVESTMENTS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. The District's cash deposits and investments at June 30, 2021, were \$896,407, at financial institutions, and were completely insured or collateralized by federal depository insurance, direct obligations of the U.S. Government, or securities held by the District or by its agent in the District's name.

Investment 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.

Investment Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy limiting its investment choices, other than the limitation of state law as follows:

- Direct obligations of the U.S. Government, its agencies and instrument to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

2. CASH AND INVESTMENTS – cont’d

- With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous bullet items.

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2021.

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 building bonds payable and capital leases. Debt service requirements for bonds and judgments are paid solely from the fund balance and the future revenues of the debt service fund. The following is a summary of long-term debt transactions of the District for the year ended June 30, 2021:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2020	\$ 680,000	155,863	835,863
Retirements	(130,000)	(107,378)	(237,378)
Balance, June 30, 2021	\$ 550,000	48,485	598,485

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

4. GENERAL LONG-TERM DEBT – cont'd

A brief description of the outstanding long-term debt at June 30, 2021, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2015, original issue \$1,200,000, interest rate of 2.00% to 2.40%, due in annual installments of \$130,000, with a final payment of \$160,000 due on 6-1-25	\$ 550,000
<u>Capital Leases:</u>	
Lease purchase for LED lights, dated 5-9-17, \$174,513, interest rate 2.70%, payable in monthly principal and interest installments of \$2,077.53, final payment due 9-24-23	<u>48,485</u>
Total	<u>\$ 598,485</u>

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

Year Ending June 30,	Principal	Interest	Total
2022	\$ 153,915	12,915	166,830
2023	154,570	9,661	164,231
2024	130,000	6,700	136,700
2025	160,000	3,840	163,840
Total	\$ 598,485	33,116	631,601

Interest paid on general long-term debt during the 2020-21 fiscal year totaled \$18,380

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

5. EMPLOYEE RETIREMENT SYSTEM

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 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 2020-21 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the District at 7.70%.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

5. EMPLOYEE RETIREMENT SYSTEM – cont'd

Annual Pension Cost

The District's total contributions for 2021, 2020, and 2019 were \$618,194, \$547,123, and \$537,657, respectively.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2021. 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.

GASB Statement 68 became effective for fiscal years beginning after June 15, 2014, and significantly changes pension accounting and financial reporting for governmental employers who participate in a pension plan, such as the System, and who prepare published financial statements on an accrual basis using Generally Accepted Accounting Principles. Since the District does not prepare and present their financial statements on an accrual basis, the net pension amount is not required to be presented on the audited financial statements.

6. RISK MANAGEMENT

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

The District participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the District reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. As a member of OSAG, the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the school's losses for the last five years. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use its loss fund in three years, it is returned to the District with no interest.

HULBERT INDEPENDENT SCHOOL DISTRICT NO. 1-16, CHEROKEE COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

6. RISK MANAGEMENT – cont'd

The District is also a member of the Oklahoma State School Boards Association (OSSBA) Employment Services program, which helps to cover the cost of unemployment claims. Depending on which level of membership the District elects, the District makes a deposit into an account administered by OSSBA, or will make payments periodically as needed. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

7. CONTINGENCIES

Federal Grants

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

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2020-21 fiscal year. The revised Uniform Guidance Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than \$750,000 in federal awards.

Litigation

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

COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 JUNE 30, 2021

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ (85,436)	11,425	(74,011)
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Warrants payable	\$ 56,751	53,165	109,916
Fund Balance:			
Restricted	(142,187)	(41,740)	(183,927)
Total Liabilities and Fund Balance	\$ (85,436)	11,425	(74,011)

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - BUDGET AND ACTUAL COMPARISON
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

	BUILDING FUND		CHILD NUTRITION FUND	
	ORIGINAL BUDGET	FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET
Revenues Collected:				
Local sources	\$ 73,002	73,002	\$ 80,885	2,481
State sources			1	2,657
Federal sources	200,000	200,000	288,889	217,777
Total revenues collected	<u>273,002</u>	<u>273,002</u>	<u>369,775</u>	<u>222,915</u>
Expenditures:				
Support services	386,174	386,174	590,065	
Operation of non-instructional services				273,294
Facilities acquisition & construction services			35,147	
Total expenditures	<u>386,174</u>	<u>386,174</u>	<u>625,212</u>	<u>273,294</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(113,172)	(113,172)	(255,437)	(50,379)
Other financing sources (uses):				
Adjustments to prior years encumbrances	0	0	78	832
Excess of revenues collected over (under) expenditures	(113,172)	(113,172)	(255,359)	(49,547)
Cash fund balances, beginning of year	113,172	113,172	113,172	7,807
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>(142,187)</u>	<u>(41,740)</u>

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2021

<u>ASSETS</u>	<u>BALANCE</u> 7-01-20	<u>ADDITIONS</u>	<u>ADJUSTMENTS/ TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6-30-21
Cash	\$ 165,486	202,725	(4,573)	243,260	120,378
 <u>LIABILITIES</u>					
Funds held for school organizations:					
Annual	\$ 8,309	5,403			13,712
Athletics	3,979	21,765	(45)	21,147	4,552
Class of 2022	1,051	3,959		2,465	2,545
Class of 2020	8,024	0	1,160	9,184	0
Class of 2021	6,805	3,151		7,847	2,109
Class of 2023	4,841	1,510		157	6,194
Class of 2024	2,193	862		1,634	1,421
Football	186	5,810	(543)	2,988	2,465
Elementary athletics	3,439	0		0	3,439
BPA	33	22		0	55
4-H	218	0		0	218
Elementary	12,509	4,554	(460)	6,413	10,190
Miscellaneous	58,977	74,711	(3,134)	116,684	13,870
National Honor Society	41	0		0	41
Junior high cheerleaders	575	0		0	575
Senior high cheerleaders	3,460	0		0	3,460
Student council	2,171	0		1,365	806
Technology	420	0		0	420
Junior High Honor Society	7	0		0	7
Class of 2025	1,397	1,850		0	3,247
Class of 2019	1,404	0		0	1,404
Wrestling	731	0		136	595
Girls basketball	539	4,613		3,513	1,639
Track	1,296	0		786	510
Pride Club	210	0		0	210
Boys basketball	497	250		614	133
Softball	2,010	0	84	1,332	762
Baseball	1,260	463		974	749
Achieve	9,490	0		110	9,380
Volleyball	2,479	1,460		1,001	2,938
Vo-Ag	754	52,996	(1,635)	42,454	9,661
Fastpitch softball	259	0		0	259
Academics	549	0		0	549
Service club	7,685	1,504		961	8,228
Cross country	163	0		0	163
Library	250	0		0	250
High school activity	2,602	500		1,475	1,627
Band	4,409	0		2,995	1,414
Art club	841	0		0	841
Swat/ROHC	397	0		0	397
Special Olympics	33	80		80	33
Backpack program	8,931	17,262		16,945	9,248
Robotics	18	0		0	18
After grad party	14	0		0	14
E-Sports club	30	0		0	30
Total Liabilities	\$ 165,486	202,725	(4,573)	243,260	120,378

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REGULATORY BASIS**

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2021

Federal Grantor / Pass Through Grantor / Program Title	Federal Assistance Listing Number	OCAS Project Number	Program or Award Amount	Balance at 7/1/20	Revenue Collected	Total Expenditures	Balance at 6/30/21
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060a	561	\$ 58,345		16,519	58,345	41,826
Indian Education - 2019-20	84.060a	799		27,739	27,739		
Impact Aid Operations	84.041z	591	288,889		288,889	288,889	
Impact Aid Disabled	84.041z	592	12,632		12,632	12,632	
Small Rural School Achievement	84.358a	588	28,499		28,499	28,499	
Small Rural School Achiev. - 2019-20	84.358a	799		2,402	2,402		
Sub Total			<u>388,365</u>	<u>30,141</u>	<u>376,680</u>	<u>388,365</u>	<u>41,826</u>
<u>Passed Through State Department of Education:</u>							
Title I	84.010	511	190,046		95,837	172,610	76,773
Title I - 2019-20	84.010	799		119,810	119,810		
Title II, Part A	84.367	541	19,446		19,446	19,446	
Title II, Part A - 2019-20	84.367	799		294	294		
IDEA-B, Flowthrough	84.027	621	152,098		82,170	112,636	30,466
IDEA-B, Flowthrough - 2019-20	84.027	799		55,948	55,948		
IDEA-B, Covid Assistance	84.027	617	7,168		7,124	7,124	
IDEA-B, Prof. Development	84.027	615	2,805		2,805	2,805	
IDEA-B, Preschool	84.173	641	1,456		1,456	1,456	
Title IV, Part A	84.424	552	11,452		11,452	11,452	
21st Century	84.287	553	167,708		108,101	167,708	59,607
21st Century- 2019-20	84.287	799		75,768	75,768		
*COVID-19 Education Stabilization Funds (ESF) -							
ESSERF / CARES Act	84.425D	788	140,723		120,852	123,606	2,754
ESSER II	84.425D	793	550,578			287,910	287,910
Total COVID-19 ESF			<u>691,301</u>	<u>0</u>	<u>120,852</u>	<u>411,516</u>	<u>290,664</u>
Sub Total			<u>1,243,480</u>	<u>251,820</u>	<u>701,063</u>	<u>906,753</u>	<u>457,510</u>
<u>U.S. Department of Agriculture</u>							
<u>Passed Through State Department of Education:</u>							
<u>*Child Nutrition Program Cluster:</u>							
National school lunch program	10.555	763			12,339	12,339	
Summer food service	10.559	766			205,438	205,438	
<u>Passed Through Department of Human Services:</u>							
Non-monetary assistance - Note 3	10.555	n/a			12,828	12,828	
Total for program cluster					<u>230,605</u>	<u>230,605</u>	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130	563	12,680			12,468	12,468
Johnson O'Malley - 2019-20	15.130	799		12,618	12,618		
Sub Total			<u>12,680</u>	<u>12,618</u>	<u>12,618</u>	<u>12,468</u>	<u>12,468</u>
Total Federal Assistance			<u>\$ 1,644,525</u>	<u>294,579</u>	<u>1,320,966</u>	<u>1,538,191</u>	<u>511,804</u>

* Major programs

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2021. This information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements except as noted in Note 3. Expenditures are recognized when an approved purchase order is issued.

Note 3 - Non-Monetary Assistance - Commodities received by the District in the amount of \$12,828 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
 FOR THE YEAR ENDED JUNE 30, 2021

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
CNA Surety - Westen Surety Company	Treasurer, Minutes Clerk, Child Nutrition Custodian	24915889	\$ 100,000	7/1/20-7/1/21
	Encumbrance Clerk, Deputy Minutes Clerk, Activity Fund	61733938	25,000	7/1/20-7/1/21
	Activity Fund	61396575	25,000	7/1/20-7/1/21
	Purchasing Agent	61396554	25,000	7/1/20-7/1/21
	Superintendent	61396549	100,000	7/1/20-7/1/21

HULBERT INDEPENDENT SCHOOL DISTRICT NO. I-16, CHEROKEE COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2020 TO JUNE 30, 2021


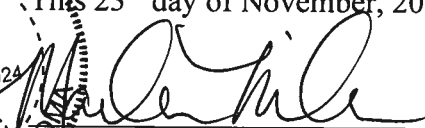
State of Oklahoma)
) ss
County of Tulsa)

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 Hulbert Public Schools for the audit year 2020-21.

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP
Auditing Firm

By 
Authorized Agent

Subscribed and sworn to before me
This 23rd day of November, 2021

 
Notary Public (or Clerk or Judge)

My Commission Expires: 12/11/2024
Commission No. 20014980



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

November 23, 2021

Ms. Jolyn Choate, Superintendent
Hulbert Public Schools
PO Box 188
Hulbert, OK 74441-0188

Dear Ms. Choate:

In addition to the findings identified in the audit on pages 12-20, listed below are the exceptions relayed to management that are immaterial instances of noncompliance with laws and regulations and which are not included, but which are referred to, in the audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

Child Nutrition

We observed during our audit of child nutrition claims that some of the monthly claims information did not agree with the monthly edit check sheets. The child nutrition director uses a *Reimbursement Report* from the child nutrition software to record the meals on the federal claims, however, this report did not agree with the edit check reports ran from the same software. The variances were all immaterial, however, we recommend that any future variances be investigated prior to submitting the federal claim to ensure that the correct number of meals is being claimed for reimbursement. Further, we recommend that the edit checks and the federal claims be reviewed by another person, independent from the process, prior to submitting the claims. Both the reviewer and the director should then sign the edit checks to document that this internal control procedure has been performed.

Credit Cards

While reviewing the District's credit card account (Arvest), we were unable to determine the exact number of cards on the account. It appears there are several cards that were "purged" on the account and it was unclear if these cards are still active. We did not observe any questionable expenditures during our audit, however, it does appear that the current Board policy needs to be updated to reflect the actual number of cards in the

District's name. We recommend that the District consider closing the Arvest accounts, therefore eliminating all cards associated with this account, and establish a new credit card account with only 1 or 2 cards. We also recommend the credit card policy be updated to reflect the new cards and outline the allowable use and security of the cards.

Federal Program Reconciliations

During our audit, we observed several instances where the federal expenditure claims submitted for reimbursement did not match the actual amounts coded to that project code, according to the Oklahoma Cost Accounting System (OCAS) and software reports.

We recommend that the District establish a procedure which requires that an employee (other than the one filing the claims) perform reconciliations periodically during the year, and at the end of the fiscal year, between the expenditures claimed for reimbursement and the expenditures that are actually coded to the program's project code on the detailed expenditure reports. We also recommend that actual expenses be coded to every grant to correspond with amounts claimed, even if the program does not require a detailed expenditure claim

Booster Clubs

We recommend that District sanctioning policies be reexamined regarding outside fundraising organizations and booster clubs. It appears that current Board policies do not provide enough accountability or protect the District from possible misuse. Oklahoma Statute Title 70 2001 § 5-129.1, states in part that "Each school district board of education shall adopt policies providing guidelines for the sanctioning of organizations... guidelines may include but not be limited to examinations of financial and performance audits performed on each such organization or association." We recommend that the Board approve a template/example of financial statements (see OSSBA revised policy / application for sanctioning) in which all booster clubs will be required to submit annually, along with the application for sanctioning. We also recommend that all sanctioned booster clubs be approved by the Board annually and that all required bylaws, purpose/goals, etc. be provided to the board. Also, financial records should be reviewed by the activity fund custodian (or other designated employee) for compliance with Board policies and to ensure that appropriate tax requirements are being followed.

Quarterly 941 IRS Payments

We were unable to determine during the audit that federal income withholding taxes and the social security and Medicare withholding taxes were remitted to the Internal Revenue Service in a timely manner. We were unable to locate the 941 Reports for the 2020 tax year. It is possible the District will be subject to IRS penalties if they determine that inaccurate payroll withholding were made or if withholdings were not paid timely. We recommend the District contact the IRS regarding this matter and resolve any past due obligations if needed.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read 'CPG', with a stylized flourish at the end.

Christopher P. Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP