

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

**OAKS MISSION INDEPENDENT SCHOOL DISTRICT NO. 1-5,  
DELAWARE COUNTY, OKLAHOMA**

**JUNE 30, 2017**

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
JUNE 30, 2017

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JUNE 30, 2017

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# SANDERS, BLEDSOE & HEWETT

## CERTIFIED PUBLIC ACCOUNTANTS, LLP

### INDEPENDENT AUDITOR'S REPORT

March 6, 2018

The Honorable Board of Education  
Oaks Mission School District Number I-5  
Oaks, Delaware County, Oklahoma

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

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Oaks Mission School District Number I-5, Oaks, Delaware County, Oklahoma (the District), as of and for the year ended June 30, 2017, 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, 2017, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

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

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

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

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2017, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

#### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is 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 March 6, 2018 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

Broken Arrow, OK



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

March 6, 2018

The Honorable Board of Education  
Oaks Mission School District Number I-5  
Oaks, Delaware 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 Oaks Mission School District Number I-5, Oaks, Delaware County, Oklahoma (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 6, 2018, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of audit results, as items 2017-1 and 2017-2, that we consider to be significant deficiencies.

## **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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of audit results as item, 2017-1 and 2017-2.

## **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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

Broken Arrow, OK



INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND  
MATERIAL INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2017

There were no prior year significant deficiencies.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017

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

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and a qualified opinion was issued for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. The audit disclosed two significant deficiencies in the internal controls over financial reporting, 2017-1 and 2017-2, which were not considered to be material weaknesses.
3. The audit disclosed two material instances of noncompliance that are required to be reported under *Government Auditing Standards* described below as items 2017-1 and 2017-2.

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

**2017-1: Activity Fund**

Condition: When testing the activity fund receipting procedures, we noted there is not a clear audit trail from when collections are made to the corresponding bank deposit. There are sponsors who were not using District provided receipt books, or receipt books were not available for review, and the activity fund custodian was not properly receipting collections from sponsors in a timely manner. In addition, there were several activity fund checks that were hand written instead of being generated through the District’s accounting software.

Criteria: Oklahoma Statutes (70 O.S. Section 5-129) 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 utilized to ensure accurate and timely reporting of financial information.

Cause / Effect: The District outsourced the activity fund duties during the year. This resulted in a timing issue for basic receipting and check writing duties and created discrepancies between the software balances and the actual account balances during the year. In addition, due to sponsors not following procedures for receipting and depositing

receipts, and that there was a limited number of personnel available to properly segregate duties, this increases the risk of money being misplaced or stolen and not being receipted and deposited in a timely manner.

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.

Response:

## **2017-2: Purchasing Documentation**

Condition: During our review of purchase orders and activity fund checks, we noted that three (3) activity fund checks and two (2) general fund purchase orders did not have an invoice or any supporting documentation attached.

Criteria: All purchase orders should include original invoices with vendor name, address, phone number and be itemized in sufficient detail.

Cause / Effect: Due to the lack of implementation and/or the following of purchasing procedures, and that there was a limited number of personnel available to properly segregate duties, this increased the risk of unauthorized or unallowable purchases to be made and not be detected in a timely manner.

Recommendation: We recommend that all purchase orders obtain 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. Non-commercial vendors claims should be limited in use.

Response:

INDEPENDENT SCHOOL DISTRICT NO. 1-5, DELAWARE COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2017

	GOVERNMENTAL FUND TYPES		FIDUCIARY	ACCOUNT	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	AGENCY /ENDOWMENT FUNDS	GROUPS GENERAL LONG-TERM DEBT	
<u>ASSETS</u>					
Cash	\$ 198,288	35,053	55,553		288,894
Amount to be provided for retirement of long-term debt				22,498	22,498
<b>Total Assets</b>	<b>\$ 198,288</b>	<b>35,053</b>	<b>55,553</b>	<b>22,498</b>	<b>311,392</b>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Warrants payable	\$ 198,288		899		199,187
Funds held for school organizations			7,901		7,901
Long-term debt:					
Capital lease				22,498	22,498
<b>Total liabilities</b>	<b>198,288</b>	<b>0</b>	<b>8,800</b>	<b>22,498</b>	<b>229,586</b>
Fund Balance:					
Restricted		35,053	46,753		81,806
Unassigned	0				0
Cash fund balances	0	35,053	46,753	0	81,806
<b>Total Liabilities and Fund Balance</b>	<b>\$ 198,288</b>	<b>35,053</b>	<b>55,553</b>	<b>22,498</b>	<b>311,392</b>

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES  
 - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2017

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPES	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	ENDOWMENT FUND	
Revenues Collected:				
Local sources	\$ 226,322	25,176		251,498
Intermediate sources	72,281			72,281
State sources	1,366,891			1,366,891
Federal sources	333,820			333,820
Interest earnings			1,404	1,404
Total revenues collected	<u>1,999,314</u>	<u>25,176</u>	<u>1,404</u>	<u>2,025,894</u>
Expenditures:				
Instruction	1,544,487			1,544,487
Support services	684,222	6,088	14,067	704,377
Operation of non-instructional services	133,196			133,196
Other outlays:				
Reimbursements	70			70
Total expenditures	<u>2,361,975</u>	<u>6,088</u>	<u>14,067</u>	<u>2,382,130</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(362,661)	19,088	(12,663)	(356,236)
Other financing sources (uses):				
Transfers in (out)	322,940		(322,940)	0
Adjustments to prior year encumbrances	12,281		2,011	14,292
Total other financing sources (uses)	<u>335,221</u>	<u>0</u>	<u>(320,929)</u>	<u>14,292</u>
Excess of revenues collected over (under) expenditures	(27,440)	19,088	(333,592)	(341,944)
Cash fund balances, beginning of year	<u>27,440</u>	<u>15,965</u>	<u>380,345</u>	<u>423,750</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>35,053</u>	<u>46,753</u>	<u>81,806</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, DELAWARE 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, 2017

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 163,391	208,757	226,322	17,565
Intermediate sources	55,985	55,985	72,281	16,296
State sources	1,367,961	1,374,940	1,366,891	(8,049)
Federal sources	351,213	698,205	333,820	(364,385)
Total revenues collected	1,938,550	2,337,887	1,999,314	(338,573)
Expenditures:				
Instruction	1,190,990	1,640,327	1,544,487	95,840
Support services	715,000	715,000	684,222	30,778
Operation of non-instructional services	60,000	60,000	133,196	(73,196)
Other outlays:				
Reimbursements			70	(70)
Total expenditures	1,965,990	2,415,327	2,361,975	53,352
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(27,440)	(77,440)	(362,661)	(285,221)
Other financing sources (uses):				
Transfers in (out)		50,000	322,940	272,940
Adjustments to prior year encumbrances			12,281	12,281
Total other financing sources (uses)	0	50,000	335,221	285,221
Excess of revenue collected over (under) expenditures	(27,440)	(27,440)	(27,440)	0
Cash fund balance, beginning of year	27,440	27,440	27,440	0
Cash fund balance, end of year	\$ 0	0	0	0

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

INDEPENDENT SCHOOL DISTRICT NO. 1-5, DELAWARE 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, 2017

	SPECIAL REVENUE FUNDS (BUILDING FUND)		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 23,286	25,176	1,890
Expenditures:			
Support services	39,251	6,088	33,163
Excess of revenue collected over (under) expenditures	(15,965)	19,088	35,053
Cash fund balances, beginning of year	15,965	15,965	0
Cash fund balances, end of year	\$ 0	35,053	35,053

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

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements of the Oaks Mission Public Schools Independent District, No. I-5 (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 Independent 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



INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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 or child nutrition fund during the 2016-17 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. The district operates their child nutrition program within the general fund.

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. The District did not maintain this fund in the 2016-17 fiscal year.

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 this fund in the 2016-17 fiscal year.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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 maintained an endowment fund during the 2016-17 fiscal year.

Endowments Fund – The endowment 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

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

The 2016-17 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Amount</u>
General	\$ 449,337

These amendments were 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

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

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, 2017, 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

E. Assets, Liabilities and Fund Equity – 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

E. Assets, Liabilities and Fund Equity – 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.



INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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 have 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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

**F. Revenue and Expenditures – cont'd**

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

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were inter-fund transfers during the 2016-17 fiscal year from the endowment fund to the general fund in the net amount of \$322,940.

**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, 2017, were \$292,154, 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.
- With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2017

**2. CASH AND INVESTMENTS – cont'd**

- 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, 2017.

**4. GENERAL LONG-TERM DEBT**

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

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2017:

	Capital Lease
Balance, July 1, 2016	\$ 44,184
Retirements	(21,686)
Balance, June 30, 2017	\$ 22,498

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2017

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

A brief description of the outstanding long-term debt at June 30, 2017, is set forth below:

	<u>Amount Outstanding</u>
<u>Capital Leases:</u>	
Lease purchase of buses, dated 8-6-12 totaling \$105,000, 3.73%, due in yearly principal and interest payments of \$23,334, final payment due 7-16-17	<u>\$ 22,498</u>

The annual debt service requirements for outstanding bond issues and capital leases, including the payment of principal and interest, are as follows:

Year Ending June 30	Principal	Interest	Total
Total	<u>\$ 22,498</u>	<u>837</u>	<u>23,335</u>

Interest paid on general long-term debt during the 2016-17 fiscal year totaled \$1,648.

**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.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

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

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 2016-17 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%.

Annual Pension Cost

The District's total contributions for 2017, 2016 and 2015 were \$143,356, \$158,559, and \$164,262, respectively. Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2017. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

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. The amount of calculated pension liability for the District at June 30, 2016 was \$1,990,832.

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**6. RISK MANAGEMENT**

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

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

**7. CONTINGENCIES**

Federal Grants

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

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2016-17 fiscal year. The 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.

The District did not fall under this threshold during the 2016-17 fiscal year, therefore, this schedule is not required and is for information purposes only.

Litigation

A former District employee provided the Board of Education with a Notice of Claim in June, 2017. However, as of the date of this audit report, there has not been a formal tort claim filed against the District.

In addition, the IRS has sent notice of a payroll tax penalty of approximately \$116,000 to the District attributable to an alleged misdesignation of the District's employer identification

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

**7. CONTINGENCIES – cont'd**

Litigation – cont'd

number for the 2014 year. The District is in the early stages of an administrative process with the IRS to eliminate or substantially reduce the proposed penalty.

Subsequent Events

For several years the District has held approximately 77 acres of land in Iowa that was donated to the District. On December 12, 2017 a purchase agreement was entered to sell the land. Once finalized, the District will receive approximately \$2,600,000 for the sale and will deposit the proceeds into the endowment fund.



INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -  
 ALL AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2017

	BALANCE 7-01-16	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-17
<u>ASSETS</u>					
Cash	\$ 35,164	74,660	0	101,923	7,901
<u>LIABILITIES</u>					
Funds held for school organizations:					
General activity	\$ 169	3,224	1,995	2,824	2,564
Yearbook	1,099	1,565		2,130	534
Junior's	45	2,141		2,117	69
Senior's	0	2,083		2,063	20
HS Cheerleaders	287	2,741		2,710	318
Elementary	19,533	1,969		20,791	711
BPA	204	501		490	215
FFA	2,377	7,769		10,068	78
Library	1,941	0		1,819	122
Sports	7,265	47,232		53,393	1,104
Petty cash	277	0	(277)	0	0
Student council	1	747		608	140
Student union	77	0		71	6
Girls athletic club	1	3,875		2,472	1,404
Boy's Basketball	96	44		0	140
Pep Club	1	542		367	176
Letter jacket account	12	0		0	12
Resource room	61	123		0	184
Baseball	1,647	0	(1,647)	0	0
Football/Weights	27	0	(27)	0	0
Academic team	44	0	(44)	0	0
Music	0	104		0	104
Total Liabilities	\$ 35,164	74,660	0	101,923	7,901

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's No.	Program or Award Amount	Balance at 7/1/16	Revenue Collected	Total Expenditures	Balance at 6/30/17
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060A	S060A160864	\$ 36,645		18,084	18,084	
Impact Aid Operations	84.041B	S041B-2017-4121	47,143		47,143	47,143	
Impact Aid Operations, Disabled	84.041B	S041B-2017-4121	5,042		5,042	5,042	
Sub Total			<u>88,830</u>	<u>0</u>	<u>70,269</u>	<u>70,269</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
Title I, Basic	84.010		66,901		38,662	64,328	25,666
Title I, School Improvement	84.010		41,200		41,200	41,200	
Title I, Delinquent	84.010		32,100		13,614	25,216	11,602
Title II, Part A	84.367		32,358		20,741	20,859	118
<u>Special Education Programs:</u>							
IDEA-B, Flowthrough	84.027		61,952		27,706	55,412	27,706
IDEA-B, Preschool	84.173		2,329		1,358	2,329	971
21st Century	84.287		207,492			173,687	173,687
Sub Total			<u>444,332</u>	<u>0</u>	<u>143,281</u>	<u>383,031</u>	<u>239,750</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education</u>							
<u>Child Nutrition Programs:</u>							
School breakfast program	10.553				38,261	37,191	
National school lunch program	10.555				77,605	77,605	
Summer food program	10.559				4,404	4,086	
Sub Total					<u>120,270</u>	<u>118,882</u>	
<u>Passed Through Department of Human Services:</u>							
Non-cash assistant - Commodities - Note 3							
National school lunch program	10.555				7,495	7,495	
<u>Passed Through Cherokee Nation:</u>							
Johnson O'Malley	15.130		7,120			4,924	4,924
Johnson O'Malley 2015-16 - Note	15.130			6,196			
Sub Total			<u>7,120</u>	<u>6,196</u>	<u>0</u>	<u>4,924</u>	<u>4,924</u>
Total Federal Assistance			<u>\$ 540,282</u>	<u>6,196</u>	<u>341,315</u>	<u>584,601</u>	<u>244,674</u>

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

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2017. 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

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

Note 3 - Non-Monetary Assistance - Commodities received by the District in the amount of \$7,495 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements

INDEPENDENT SCHOOL DISTRICT NO. 1-5, DELAWARE COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2017

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Western Surety Co	Encumbrance Clerk	70319227	\$ 100,000	6/01/16 - 6/01/17
	Treasurer	69773654	100,000	06/1/17 - 06/1/18
	Custodian Student Activity Fund	70319195	100,000	6/01/16 - 6/01/17
	Board Minutes Clerk	70319195	100,000	6/01/16 - 6/01/17
	Superintendent	62119649	100,000	7/08/16 - 7/08/17

INDEPENDENT SCHOOL DISTRICT NO. I-5, DELAWARE COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2016 TO JUNE 30, 2017

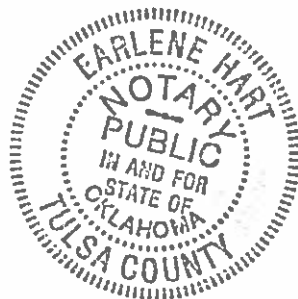
State of Oklahoma            )  
  ) ss  
County of Tulsa             )


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 Oaks Mission Public Schools for the audit year 2016-17.

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

By   
Authorized Agent

Subscribed and sworn to before me  
This 6<sup>th</sup> day of March, 2018



  
Notary Public (or Clerk or Judge)

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



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

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

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

March 6, 2018

Wyman Thompson, Supt  
Oaks Mission Public Schools  
P.O. Box 160  
Oaks, Oklahoma 74359-0160

Dear Mr. Thompson:

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

**The following section contains the exception relayed to management which will be included in your audit report as a significant deficiency relating to the internal controls over financial reporting.**

Activity Fund

When testing the activity fund receipting procedures, we noted there is not a clear audit trail from when collections are made to the corresponding bank deposit. There are sponsors who were not using District provided receipt books, or receipt books were not available for review, and the activity fund custodian was not properly receipting collections from sponsors in a timely manner. In addition, there were several activity fund checks that were hand written instead of being generated through the District's MAS software. 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.

## Purchasing Documentation

During our review of purchase orders and activity fund checks, we noted that three (3) activity fund checks and two (2) general fund purchase orders did not have an invoice or any supporting documentation attached. We recommend that all purchase orders obtain 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. Non-commercial vendors claims should be limited in use.

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

## Purchase Orders

Purchase orders were used in accordance with Oklahoma Statutes, however, they were not always encumbered against available appropriations prior to the obligations being incurred. We recommend that the District enforce its policies and procedures which require that purchase orders be encumbered prior to the obligation being incurred. (Reference: 70 O.S. 2016 § 5-135D)

## Purchase Orders - Coding

We observed during the audit that there were some purchase orders with incorrect expenditure codes. Most of these purchase orders were coded to object code 619 when there was a more appropriate code that could have been used. We recommend that all purchase orders be coded correctly according to OCAS.

## Federal Programs

We noted a few instances where the amount claimed and received by the District was different than the amount that ended up being coded to the specific project code on OCAS. The exceptions noted were:

<u>Program</u>	<u>Proj #</u>	<u>Claimed</u>	<u>Coded</u>	<u>Variance</u>
Title I	511	64,328.00	62,270.00	2,058.00
Title I, Delinq.	532	25,216.00	26,216.00	(1,000.00)
Title II	541	20,859.00	21,628.00	(769.00)
Flowthrough	621	55,412.00	44,260.00	11,152.00
21st Century	553	173,687.00	173,370.00	317.00
JOM	563	4,924.00	4,984.00	(60.00)

We will show the amounts claimed on the audit, but this may result in the District having to explain these variances to the Okla. State Dept. of Education at a later date. It appears that these variances were due to expenditures being reclassified to '000' in error.

### Employment Contracts

We observed during the audit that there were no contracts prepared for administrative or support personnel as none were presented for audit. However, we were able to perform alternative tests with contracts that were not original and we did not note any material variances in payroll. We recommend that contracts be prepared for all certified, support and administrative personnel, as required by Oklahoma Statutes. (Reference: 70 O.S. 2016 § 5-123 and Attorney General's Opinion No. 82-62, dated 3-3-82)

### Child Nutrition Programs

The Child Nutrition Program was reviewed by a representative of the Oklahoma State Department of Education during the 2016-17 fiscal year, and identified some areas of concern that were communicated to the District. The District subsequently submitted a corrective action plan in regard to these areas of concern, which was accepted by the State Department of Education.

### Petty Cash Account

We observed that petty cash expenditures were ran through the 'General Activity' subaccount rather than the established 'Petty Cash' sub-account. We recommend that these type of expenditures be disbursed through the appropriate sub-account.

### General Fund Balance

We observed during the audit that the General Fund balance significantly decreased during the year. The District's Endowment Fund was forced to absorb this shortfall and transfers were made in excess of \$300,000 between the funds. We are aware of funding cuts at the state level, however, we recommend that the District carefully monitor its revenues and expenditures during the year, so the General Fund will not end the fiscal year with a negative balance and the Endowment Fund will not be forced to make General Fund expenditures.

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 "Eric M. Bledsoe". The signature is fluid and cursive, with a long horizontal stroke at the end.

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP