

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

**PRAGUE INDEPENDENT SCHOOL DISTRICT NO. I-103,
LINCOLN COUNTY, OKLAHOMA**

JUNE 30, 2016

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
JUNE 30, 2016

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JUNE 30, 2016

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

January 30, 2017

The Honorable Board of Education
Prague School District Number I-103
Prague, Lincoln County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Prague School District Number I-103, Prague, Lincoln County, Oklahoma (the District), as of and for the year ended June 30, 2016, 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, 2016, 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, 2016, 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 the *Oklahoma Department of Education* and/or *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 January 30, 2017 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**

January 30, 2017

The Honorable Board of Education
Prague School District Number I-103
Prague, Lincoln 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 Prague School District Number I-103, Prague, Lincoln County, Oklahoma (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated January 30, 2017, 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.

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, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in the accompanying Schedule of Audit Results, 2016-1, to be a material weakness.

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 deficiency described in the accompanying Schedule of Audit Results, 2016-2, to be a significant deficiency.

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 2016-1.

We noted certain matters that we reported to management of the School, in a separate letter dated January 30, 2017.

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 response was not subjected to the auditing procedures applied in the audit of 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-103, LINCOLN COUNTY
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL
INSTANCES OF NON-COMPLIANCE
JUNE 30, 2016

Condition: We observed during the audit that appropriation amounts for the general and co-op funds were exceeded at the end of the 2014-15 fiscal year.

The general fund had original appropriations of \$7,220,413.64, and \$442,816.00 was added by a Form 307 on June 8, 2015, resulting in an amended appropriation amount of \$7,663,229.64. However, at June 30, 2015, the general fund had obligations (through checks issued and reserve encumbrances) totaling \$7,731,404.49, which means appropriations were exceeded by \$68,174.85. It was noted that an additional Form 307 was done after June 30, 2015 for \$76,376.82, which covered the total amount exceeded.

The co-op fund had original appropriations of \$47,448.17. At June 30, 2015, the co-op fund had obligations (checks issued) of \$51,580.51, which means appropriations were exceeded by \$4,132.34. This fund under-collected their estimated revenue amounts by \$14,645.17 in 2014-15, thus, it would have been impossible to add any additional appropriations for this fund. The co-op fund ended the 2014-15 fiscal year with a negative fund balance of (\$18,600.52).

Recommendation: We recommend that all appropriation amounts be closely monitored at all times, and reviewed on a weekly basis to ensure that legal appropriation (budget) amounts are not ever exceeded during a fiscal year. At no time should the legal appropriation amounts be exceeded by checks issued and/or encumbered obligation amounts.

Current Status: During the current 15-16 fiscal year the general fund appropriations were not exceeded, and no supplemental appropriations were necessary. Expenditures exceeding appropriations and issues concerning the addition of supplemental appropriations in the Co-op fund continued in the current fiscal year.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2016

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 significant deficiencies in the internal controls over financial reporting, of which 2016-1, is considered a material weakness, and 2016-2 was not considered a material weakness.
3. The audit disclosed a material instance of noncompliance that is required to be reported under *Government Auditing Standards* described below as item 2016-1.

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

2016-1: Appropriations and Receipts

Condition: We observed during the audit that appropriation amount for the Co-op fund was exceeded at the end of the 2015-16 fiscal year. The Co-op fund had an original appropriation of \$11,399.48. At June 30, 2016, the co-op fund had obligations (checks issued) of \$47,917.15, which means appropriations were exceeded by \$36,517.67. The District prepared and filed a Form 307 in the amount of \$44,085.48 in order to cover all its encumbrances, however, the Form 307 was not substantiated by any revenues or allocations, but rather the amount that was needed to cover its encumbrances. The District transferred \$48,647.71 from the General fund to cover a majority of its expenditures. In addition, there was \$4,975.30 of Carl Perkins funds and \$27,302.31 in Alternative Education funds which were deposited into the General fund which should have been deposited into the Co-op fund. The Co-op fund ended the year with a negative fund balance of (\$7,067.81), however, after revenues have been reclassified to the correct funds, the Co-op fund will have an ending balance of \$25,209.80.

Criteria: Oklahoma Statutes (70 O.S. § 5-186) state that it is a violation for expenditures of an appropriated fund to exceed the approved appropriation balance at any time during the fiscal year. Appropriations may be added by supplemental appropriations if revenues are in excess of those estimated on the original budget (70 O.S. § 5-188). State Auditor and Inspector Form 307 for supplemental appropriations should be completed in a timely manner, but no later than September 30th. This form is for the addition of state and/or federal funds and should be completed prior to any expenditure being made. Also, revenues should be deposited into the correct funds.

Cause / Effect: Due to District personnel not following procedures for monitoring appropriations, and a limited number of personnel available to properly segregate accounting functions, supplemental appropriation forms were not completed properly nor filed in a timely manner, and revenues were not recorded into the correct funds, therefore increasing the risk of appropriations being exceeded and the financial statements to be incorrect.

Recommendation: We recommend that all appropriation amounts be closely monitored at all times, and reviewed on a monthly basis to ensure that legal appropriation (budget) amounts are not ever exceeded during the fiscal year. We also recommend procedures that would review the monthly receipts to make sure they are receipted into the correct funds be implemented. In addition, the District may need to reopen their OCAS data and change the receipts so the school's audited financial statements will agree with the data submitted to OCAS.

2016-2: Treasurers' Records

Condition: The treasurers' monthly records reconciled to the bank statements, however, due to year-end coding changes, adjusting/correcting entries and fund transfers, the year-to-date revenue and expenditure reports did not adequately reconcile to the year-end balance sheet. An adjustment of (\$787.48) was made to General fund, source code 1500, in order to reconcile the financial records to the bank statements.

Criteria: Sound accounting practices require that bank statements be reconciled to the accounting records in a timely manner, and as required by Oklahoma statutes 70 2001 § 5-115.

Cause / Effect: 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. There has been some turnover in the treasurers position.

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. Also, recommend that the reconciled bank statements be included with the monthly financial information that is submitted to the board. The District may need to reopen their OCAS data and make the adjustment to revenue so the school's audited financial statements will agree with the data submitted to OCAS.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
 JUNE 30, 2016

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	TRUST AND AGENCY FUND	GENERAL LONG-TERM DEBT	
<u>ASSETS</u>							
Cash	\$ 667,601	111,494	575,693	683,659	299,987		2,338,434
Amounts available in debt service						683,659	683,659
Amount to be provided for retirement of long-term debt						2,302,222	2,302,222
Total Assets	<u>\$ 667,601</u>	<u>111,494</u>	<u>575,693</u>	<u>683,659</u>	<u>299,987</u>	<u>2,985,881</u>	<u>5,324,315</u>
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Warrants payable	\$ 257,186	3,795					260,981
Encumbrances	14,404	7,568	88,713				110,685
Funds held for school organizations					228,963		228,963
Long-term debt:							
Bonds payable						2,775,000	2,775,000
Capital leases						210,881	210,881
Total liabilities	<u>271,590</u>	<u>11,363</u>	<u>88,713</u>	<u>0</u>	<u>228,963</u>	<u>2,985,881</u>	<u>3,586,510</u>
Fund Balance:							
Restricted		100,131	486,980	683,659	71,024		1,341,794
Unassigned	396,011						396,011
Cash fund balances	<u>396,011</u>	<u>100,131</u>	<u>486,980</u>	<u>683,659</u>	<u>71,024</u>	<u>0</u>	<u>1,737,805</u>
Total Liabilities and Fund Balance	<u>\$ 667,601</u>	<u>111,494</u>	<u>575,693</u>	<u>683,659</u>	<u>299,987</u>	<u>2,985,881</u>	<u>5,324,315</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN 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, 2016

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	EXPENDABLE TRUST FUNDS	
Revenues Collected:						
Local sources	\$ 1,057,029	205,736	693	664,193		1,927,651
Intermediate sources	285,060					285,060
State sources	4,524,563	36,767		111		4,561,441
Federal sources	315,743	253,899				569,642
Interest earnings	181	1,062			72	1,315
Non-revenue receipts	72,218					72,218
Total revenues collected	<u>6,254,794</u>	<u>497,464</u>	<u>693</u>	<u>664,304</u>	<u>72</u>	<u>7,417,327</u>
Expenditures:						
Instruction	4,005,580	42,433				4,048,013
Support services	2,132,355	248,483	88,713		1,000	2,470,551
Operation of non-instructional services	147,556	174,448				322,004
Facilities acquisition & construction services			1,665,000			1,665,000
Other outlays:						
Correcting entry	1,980					
Reimbursement		100				
Debt service requirements				17,235		17,235
Total expenditures	<u>6,287,471</u>	<u>465,464</u>	<u>1,753,713</u>	<u>17,235</u>	<u>1,000</u>	<u>8,524,883</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(32,677)	32,000	(1,753,020)	647,069	(928)	(1,107,556)
Other financing sources (uses):						
Transfers in (out)	94,352	(102,352)	8,000			
Adjustments to prior year encumbrances	4,421					4,421
Bond sale proceeds			575,000			575,000
Total other financing sources (uses)	<u>98,773</u>	<u>(102,352)</u>	<u>583,000</u>	<u>0</u>	<u>0</u>	<u>579,421</u>
Excess of revenues collected over (under) expenditures and other financing sources	66,096	(70,352)	(1,170,020)	647,069	(928)	(528,135)
Cash fund balances, beginning of year	<u>329,915</u>	<u>170,483</u>	<u>1,657,000</u>	<u>36,590</u>	<u>71,952</u>	<u>2,265,940</u>
Cash fund balances, end of year	<u>\$ 396,011</u>	<u>100,131</u>	<u>486,980</u>	<u>683,659</u>	<u>71,024</u>	<u>1,737,805</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN 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, 2016

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 991,362	991,362	1,057,029	65,667
Intermediate sources	237,708	237,708	285,060	47,352
State sources	4,466,872	4,466,872	4,524,563	57,691
Federal sources	282,195	282,195	315,743	33,548
Interest earnings			181	181
Non-revenue receipts	40,000	40,000	72,218	32,218
Total revenues collected	6,018,137	6,018,137	6,254,794	236,657
Expenditures:				
Instruction	3,926,947	3,926,947	4,005,580	(78,633)
Support services	2,258,294	2,258,294	2,132,355	125,939
Operation of non-instruction services	145,091	145,091	147,556	(2,465)
Other outlays:				
Reimbursement	200	200		200
Clearing account	17,520	17,520		17,520
Correcting Entry			1,980	(1,980)
Total expenditures	6,348,052	6,348,052	6,287,471	60,581
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(329,915)	(329,915)	(32,677)	297,238
Other financing sources (uses):				
Transfers in (out)			94,352	94,352
Adjustments to prior year encumbrances			4,421	4,421
Total other financing sources (uses)	0	0	98,773	98,773
Excess of revenues collected over (under) expenditures	(329,915)	(329,915)	66,096	396,011
Cash fund balance, beginning of year	329,915	329,915	329,915	0
Cash fund balance, end of year	\$ 0	0	396,011	396,011

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN 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, 2016

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 184,955	184,955	205,736	20,781
State sources	35,106	79,191	36,767	(42,424)
Federal sources	229,309	229,309	253,899	24,590
Interest earnings			1,062	1,062
Total revenues collected	<u>449,370</u>	<u>493,455</u>	<u>497,464</u>	<u>4,009</u>
Expenditures:				
Instruction	11,400	55,485	42,433	13,052
Support services	304,081	304,081	248,483	55,598
Operation of non-instructional services	304,372	304,372	174,448	129,924
Other outlays:				
Reimbursement			100	(100)
Total expenditures	<u>619,853</u>	<u>663,938</u>	<u>465,464</u>	<u>198,474</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(170,483)	(170,483)	32,000	202,483
Other financing sources (uses):				
Transfers in (out)	<u>0</u>	<u>0</u>	<u>(102,352)</u>	<u>(102,352)</u>
Excess of revenue collected over (under) expenditures	(170,483)	(170,483)	(70,352)	100,131
Cash fund balances, beginning of year	<u>170,483</u>	<u>170,483</u>	<u>170,483</u>	<u>0</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>100,131</u>	<u>100,131</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN 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, 2016

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 632,104	664,193	32,089
State sources		111	111
Total revenues collected	632,104	664,304	32,200
Requirements:			
Bonds	640,000		640,000
Coupons	28,694	17,235	11,459
Total expenditures	668,694	17,235	651,459
Excess of revenues collected over (under) expenditures	(36,590)	647,069	683,659
Cash fund balance, beginning of year	36,590	36,590	0
Cash fund balance, end of year	\$ 0	683,659	683,659

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Prague Public Schools Independent District, No. I-103 (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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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.

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.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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 a gifts and endowment fund during the 2015-16 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 (judgements 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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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 2015-16 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Total</u>
Co-op	\$ 44,085

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2015, 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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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. During the 2015-16 fiscal year, the District transferred \$31,000 from the building fund to the general fund, \$120,000 from the child nutrition fund to the general fund, \$48,648 from the general fund to the co-op fund, and \$8,000 from the general fund to bond fund 31.

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, 2016, were \$2,377,748, 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.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016.

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 building bonds payable and capital leases. Debt service requirements for bonds are payable solely from the fund balance and the future revenues of the debt service fund.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2016:

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

4. GENERAL LONG-TERM DEBT – cont'd

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2015	\$ 2,200,000	1,844,623	4,044,623
Additions	575,000		575,000
Retirements		(1,633,742)	(1,633,742)
Balance, June 30, 2016	\$ 2,775,000	210,881	2,985,881

A brief description of the outstanding long-term debt at June 30, 2016, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2014, original issue \$550,000, interest rate of .65%, due in one annual installment of \$550,000 due 7-1-16	\$ 550,000
Building Bonds, Series 2015, original issue \$1,650,000, interest rate of .75% to 3.55%, due in one installment of \$90,000, and annual installments of \$520,000 thereafter, final payment due 4-1-10	1,650,000
Building Bonds, Series 2016, original issue \$575,000, interest rate of .95%, due in one installment of \$575,000, final payment 5-1-18	575,000
<u>Capital Leases:</u>	
Lease purchase equipment (technology), with Standard Capital Finance LLC, dated 8-15-14, totaling \$260,000, due in annual principal and interest installments of \$56,529, final payment due 8-15-19	210,881
Total	\$ 2,985,881

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

4. GENERAL LONG-TERM DEBT – cont’d

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

Year Ending June 30,	Principal	Interest	Total
2017	\$ 690,519	32,283	722,802
2018	1,146,959	24,072	1,171,031
2019	573,440	13,229	586,669
2020	<u>574,963</u>	<u>7,026</u>	<u>581,989</u>
Total	<u>\$2,985,881</u>	<u>76,610</u>	<u>3,062,491</u>

Interest paid on general long-term debt incurred during the 2015-16 fiscal year totaled \$108,597.

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

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

5. EMPLOYEE RETIREMENT SYSTEM – cont'd

Basis of Accounting – cont'd

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 2015-16 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 8.25%.

Annual Pension Cost

The District's total contributions for 2016, 2015 and 2014 were \$630,149, \$703,470, and \$606,141, respectively.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2016. 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. The amount of calculated pension liability for the District at June 30, 2015 (the latest information available) was \$6,756,686.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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.

The District is also 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.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

7. CONTINGENCIES – cont'd

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2015-16 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. The District did not fall under these requirements in 15-16.

Litigation

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

Bond Issue

On February 9, 2016, the District passed a series bond totaling \$7,255,000. This consists of proposition #1 for \$6,615,000, to provide funds to be issued in a series for the purpose of constructing, equipping, repairing and remodeling school buildings, acquiring school furniture, fixtures, and equipment and acquiring and improving school sites, and proposition #2 for \$640,000, to provide funds to be issued in a series for the purpose of purchasing transportation equipment. As of June 30, 2016, the District has sold the first series bond in the amount of \$575,000.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 JUNE 30, 2016

	<u>BUILDING FUND</u>	<u>CO-OP FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash	\$ 54,763	34,629	22,102	111,494
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants payable	\$ 1,943	1,852		3,795
Encumbrances		7,568		7,568
Total Liabilities	<u>1,943</u>	<u>9,420</u>	<u>0</u>	<u>11,363</u>
Fund Balance:				
Restricted	<u>52,820</u>	<u>25,209</u>	<u>22,102</u>	<u>100,131</u>
Total Liabilities and Fund Balance	<u>\$ 54,763</u>	<u>34,629</u>	<u>22,102</u>	<u>111,494</u>

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	BUILDING FUND	COOP FUND	CHILD NUTRITION FUND	TOTAL
Revenues Collected:				
Local sources	\$ 148,643		57,093	205,736
State sources	24	33,014	3,729	36,767
Federal sources		17,632	236,267	253,899
Interest earnings	974		88	1,062
Total revenues collected	<u>149,641</u>	<u>50,646</u>	<u>297,177</u>	<u>497,464</u>
Expenditures:				
Instruction		42,433		42,433
Support services	235,431	13,052		248,483
Operation of non-instructional services			174,448	174,448
Other outlays:				
Reimbursement			100	100
Total expenditures	<u>235,431</u>	<u>55,485</u>	<u>174,548</u>	<u>465,464</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(85,790)	(4,839)	122,629	32,000
Other financing sources (uses):				
Transfers in (out)	<u>(31,000)</u>	<u>48,648</u>	<u>(120,000)</u>	<u>(102,352)</u>
Excess of revenues collected over (under) expenditures	(116,790)	43,809	2,629	(70,352)
Cash fund balances, beginning of year	<u>169,610</u>	<u>(18,600)</u>	<u>19,473</u>	<u>170,483</u>
Cash fund balances, end of year	<u>\$ 52,820</u>	<u>25,209</u>	<u>22,102</u>	<u>100,131</u>

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN 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, 2016

	BUILDING FUND			CO-OP FUND			CHILD NUTRITION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues Collected:									
Local sources	\$ 134,471	134,471	148,643	\$			\$ 50,484	50,484	57,093
State sources			24	30,000	74,085	33,014	5,106	5,106	3,729
Federal sources						17,632	229,309	229,309	236,267
Interest earnings			974						88
Total revenues collected	<u>134,471</u>	<u>134,471</u>	<u>149,641</u>	<u>30,000</u>	<u>74,085</u>	<u>50,646</u>	<u>284,899</u>	<u>284,899</u>	<u>297,177</u>
Expenditures:									
Instruction				11,400	55,485	42,433			
Support services	304,081	304,081	235,431			13,052			
Operation of non-instructional services							304,372	304,372	174,448
Other outlays:									
Reimbursement									100
Total expenditures	<u>304,081</u>	<u>304,081</u>	<u>235,431</u>	<u>11,400</u>	<u>55,485</u>	<u>55,485</u>	<u>304,372</u>	<u>304,372</u>	<u>174,548</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(169,610)	(169,610)	(85,790)	18,600	18,600	(4,839)	(19,473)	(19,473)	122,629
Other financing sources (uses):									
Transfers in (out)	<u>0</u>	<u>0</u>	<u>(31,000)</u>	<u>0</u>	<u>0</u>	<u>48,648</u>	<u>0</u>	<u>0</u>	<u>(120,000)</u>
Excess of revenues collected over (under) expenditures	(169,610)	(169,610)	(116,790)	18,600	18,600	43,809	(19,473)	(19,473)	2,629
Cash fund balances, beginning of year	<u>169,610</u>	<u>169,610</u>	<u>169,610</u>	<u>(18,600)</u>	<u>(18,600)</u>	<u>(18,600)</u>	<u>19,473</u>	<u>19,473</u>	<u>19,473</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>52,820</u>	<u>\$ 0</u>	<u>0</u>	<u>25,209</u>	<u>\$ 0</u>	<u>0</u>	<u>22,102</u>

INDEPENDENT SCHOOL DISTRICT NO. I-103 OF LINCOLN COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES -
 ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS
 JUNE 30, 2016

	BUILDING BOND 31 FUND	BUILDING BOND 32 FUND	TRANSPORTATION BOND 33 FUND	TOTAL
<u>ASSETS</u>				
Cash	\$ 693	240,000	335,000	575,693
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Encumbrances	\$ 0	8,813	79,900	88,713
Fund Balances:				
Restricted	693	231,187	255,100	486,980
Total Liabilities and Fund Balance	\$ 693	240,000	335,000	575,693

INDEPENDENT SCHOOL DISTRICT NO. I-103 OF LINCOLN COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES, AND CHANGES
 IN CASH FUND BALANCES - ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS
 JUNE 30, 2016

	BUILDING BOND 31 FUND	BUILDING BOND 32 FUND	TRANSPORTATION BOND 33 FUND	TOTAL
Revenues collected:				
Local sources	\$ 693	0	0	693
Expenditures:				
Support services		8,813	79,900	88,713
Facilities acquisition and construction services	1,665,000			1,665,000
Total expenditures	1,665,000	8,813	79,900	1,753,713
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(1,664,307)	(8,813)	(79,900)	(1,753,020)
Other financing sources (uses)				
Bond proceeds		240,000	335,000	575,000
Transfers in (out)	8,000			8,000
Total other financing sources (uses)	8,000	240,000	335,000	583,000
Excess of revenues collected over (under) expenditures after other financing sources (uses)	(1,656,307)	231,187	255,100	(1,170,020)
Cash fund balances, beginning of year	1,657,000	0	0	1,657,000
Cash fund balances, end of year	\$ 693	231,187	255,100	486,980

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES & FUND BALANCE -
 ALL FIDUCIARY FUND TYPES - REGULATORY BASIS
 JUNE 30, 2016

	EXPENDABLE TRUST FUND	AGENCY FUNDS	
<u>ASSETS</u>	GIFTS AND ENDOWMENTS FUND	SCHOOL ACTIVITY FUNDS	<u>TOTAL</u>
Cash	\$ 71,024	228,963	299,987
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Funds held for school organizations	\$ 0	228,963	228,963
Fund Balance:			
Restricted	71,024	0	71,024
Total Liabilities and Fund Balance	\$ 71,024	228,963	299,987

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

<u>ASSETS</u>	BALANCE 7-01-15	ADDITIONS	NET TRANSFERS/ ADJUSTMENTS	DEDUCTIONS	BALANCE 6-30-16
Cash	\$ 210,322	575,632	8,528	565,519	228,963
<u>LIABILITIES</u>					
Funds held for school organizations:					
Athletics	\$ 48,978	198,862	10,958	209,094	49,704
General fund	0	3,787		3,787	0
Senior class	250	4,748		3,511	1,487
Junior class	2,684	4,413		4,411	2,686
FCCLA	744	3,158	45	2,581	1,366
Vo-ag/ FFA	9,516	46,292	4,300	50,634	9,474
Middle school	4,381	10,652	(195)	8,466	6,372
21st Century	1,283	1,950	2,700	781	5,152
Band	7,155	18,083	51	20,744	4,545
Elementary	15,360	25,679	2,227	24,673	18,593
High school vending	9,665	30,496	750	27,765	13,146
Quarterback Club	6,233	42,060	(3,095)	41,092	4,106
Pen and pencils	3,027	3,377	(2,593)	1,723	2,088
Band boosters	11,652	40,043	2,062	49,517	4,240
High school student council	239	6,590	(6,590)	239	0
Key club	1,090	0		0	1,090
National honor society	0	50		0	50
Annual staff	6,512	16,662	390	8,576	14,988
High school cheerleaders	1,430	23,405	(2,402)	16,577	5,856
Technology education	140	1,125	(1,265)	0	0
General fund refund	0	17,204	1,291	18,495	0
4-H account	2,251	10,010	(75)	11,408	778
Softball boosters	2,524	12,152	4,202	16,562	2,316
Art	2,505	1,719		1,147	3,077
Interest account	20	0	272	269	23
Petty cash	0	0		0	0
Middle school cheerleaders	2,330	5,355		4,938	2,747
FBLA	2,247	1,930		1,438	2,739
Baseball booster	363	2,421	(2,100)	178	506
Ag booster club	12,248	22,923	(1,171)	12,142	21,858
Wrestling	966	2,851	341	3,346	812
Speech and drama	804	2,891	40	2,486	1,249
Prague education boosters	24,961	598	(2,750)	3,034	19,775
Middle school student council	2,897	1,484		1,458	2,923
Special Olympics	598	0		0	598
Alternative education	350	300		98	552
Scholarships	1,577	6,632		6,674	1,535
Track booster club	18,050	2,372		3,204	17,218
Early childhood center	5,292	3,358	1,135	4,471	5,314
Total Liabilities	\$ 210,322	575,632	8,528	565,519	228,963

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/15	Revenue Collected	Total Expenditures	Balance at 6/30/16
<u>U.S. Department of Education</u>							
<u>Direct Programs</u>							
Indian Education	84.060a	S060A150134	\$ 38,681		38,681	38,681	0
Indian Education - Note	84.060a	S060A140134		2,138	2,138		
Sub Total			<u>38,681</u>	<u>2,138</u>	<u>40,819</u>	<u>38,681</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
Title I	84.010	S010A150036	235,093		235,043	235,043	
Title II, Part A - Note	84.367			366	366		
Title IV, Part B	84.358	S366B150037	20,529		20,529	20,529	
Title IV, Part A 21st Century - Note	84.287			12,734	12,734		
Sub Total			<u>255,622</u>	<u>13,100</u>	<u>268,672</u>	<u>255,572</u>	<u>0</u>
<u>Passed Through State Department of Career and Technology Education:</u>							
Carl Perkins grant	84.048		17,476			16,436	16,436
Carl Perkins grant - Note	84.048			17,632	17,632		
Sub Total			<u>17,476</u>	<u>17,632</u>	<u>17,632</u>	<u>16,436</u>	<u>16,436</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	6OK300329			56,791	56,791	
National school lunch program - Note 2	10.555	6OK300329			178,774	178,774	
Summer Food	10.559				702	702	
Sub Total				<u>0</u>	<u>236,267</u>	<u>236,267</u>	<u>0</u>
<u>Passed Through Department of Human Service</u>							
Non-cash assistance - Commodities - Note 1							
National school lunch program	10.555				16,831	16,831	
<u>Other Federal Assistance</u>							
Rehab services	84.126		6,252	0	6,252	6,252	0
Total Federal Assistance			<u>318,031</u>	<u>32,870</u>	<u>586,473</u>	<u>570,039</u>	<u>16,436</u>

Note - This amount represents a reimbursement for prior year expenditures which was not received until the current fiscal year.

Note 1 - Commodities received by the District in the amount of \$16,831 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 2 - There was \$65,548 of expenditures coded to OCAS project code '000' out of the general fund.

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
 FOR THE YEAR ENDED JUNE 30, 2016

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
CNA Surety - Westen Surety Company	Treasurer	71364573	\$ 100,000	01/08/16 - 01/08/17
	Encumbrance Clerk	18005211	100,000	09/22/15 - 09/22/16
	Activity Fund	18005211	100,000	09/22/15 - 09/22/16
	Superintendent	18005211	100,000	09/22/15 - 09/22/16
	Principal (3)	18005211	150,000	09/22/15 - 09/22/16
	Assistant Superintendent	18005211	100,000	09/22/15 - 09/22/16
	Minutes Clerk	18005211	1,000	1/19/16 - 9/22/16

INDEPENDENT SCHOOL DISTRICT NO. I-103, LINCOLN COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2015 TO JUNE 30, 2016

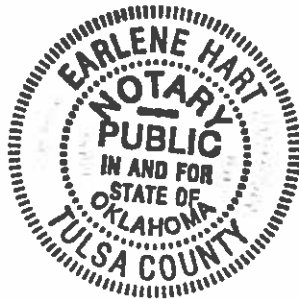
State of Oklahoma)
) ss
County of Tulsa)

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 Prague Public Schools for the audit year 2015-16.

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

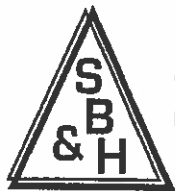
By Jeffrey D. Hewett
Authorized Agent

Subscribed and sworn to before me
This 30th day of January 2017



Earlene Hart
Notary Public (or Clerk or Judge)

My Commission Expires: 5-19-20
Commission No. 00008621



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

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January 30, 2017

Mr. Justin Lockwood, Supt
Prague Public Schools
3504 NBU
Prague, OK 74864-2031

Dear Mr. Lockwood:

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 exceptions relayed to management which will be included in your audit report as significant deficiencies relating to the internal controls over financial reporting and compliance.

Appropriations and Receipts

We observed during the audit that appropriation amount for the Co-op fund was exceeded at the end of the 2015-16 fiscal year. The Co-op fund had an original appropriation of \$11,399.48. At June 30, 2016, the co-op fund had obligations (checks issued) of \$47,917.15, which means appropriations were exceeded by \$36,517.67. The District prepared and filed a Form 307 in the amount of \$44,085.48 in order to cover all its encumbrances, however, the Form 307 was not substantiated by any revenues or allocations, but rather the amount that was needed to cover its encumbrances. The District transferred \$48,647.71 from the General fund to cover a majority of its expenditures. In addition, there was \$4,975.30 of Carl Perkins funds and \$27,302.31 in Alternative Education funds which were deposited into the General fund which should have been deposited into the Co-op fund. The Co-op fund ended the year with a negative fund balance of (\$7,067.81), however, after revenues have been reclassified to the correct funds, the Co-op fund will have an ending balance of \$25,209.80.

Treasurers' Records

The treasurers' monthly records reconciled to the bank statements, however, due to year-end coding changes, adjusting/correcting entries and fund transfers, the year-to-date revenue and expenditure reports did not adequately reconcile to the year-end balance sheet. An adjustment of (\$787.48) was made to General fund, source code 1500, in order to reconcile the financial records to the bank statements.

The following section contains the observations relayed to management that are control deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies.

Activity Funds Deposits

We observed during our examination of activity fund collections that sponsors were frequently holding collections for several days and sometime over a week before being turned in for deposit. We recommend sponsors turn in collections daily, or weekly if the collections are less than \$100.00. Holding these funds overnight increases the opportunity for lost or stolen funds. Receipt books were being utilized, however, it was difficult to trace receipts to the deposit. We recommend that all student activity fund sponsors be reminded that all funds collected each day should be turned in to the site or district activity fund office for immediate deposit and that sponsors receipt numbers be placed on the deposit slip to create an adequate audit trail.

Purchase Orders

We observed in our audit that purchase orders were not in date-purchase order number sequence, indicating that purchase orders are being completed after an invoice is received, and being dated to match the invoice date. We recommend that all District obligations be encumbered prior to the actual purchase of materials or services, as required by Oklahoma Statutes. Also, purchase orders should never be dated anything other than the actual date they are issued.

Federal Program Coding

During the review of the federal programs we observed the following instances as it relates to expenditures and OCAS coding:

- The Carl Perkins program (421) claimed and received \$16,435.81, however, \$16,958.21, was coded to the project code as reported to OCAS, resulting in an over-coded amount of \$522.40.
- The Rehabilitation program (456) received \$6,251.59, however, \$6,532.25, was coded to the project code as reported to OCAS, resulting in an over-coded amount of \$280.66.
- The Title IX Indian Education program (561) received \$38,681.00, however, \$35,898.13, was coded to the project code as reported to OCAS, resulting in an under-coded amount of \$2,782.87. However, we observed allowable expenditures that were coded to the '000' project code, therefore \$38,681.00 is reported on the Schedule of Expenditures of Federal Awards (SEFA).

- The National School Lunch program (763) received \$178,773.76, however, \$113,226.22, was coded to the project code as reported to OCAS, resulting in an under-coded amount of \$65,547.54. However, we observed allowable expenditures that were coded to the '000' project code, '700' program code in the General fund, therefore \$178,773.76 is reported on the Schedule of Expenditures of Federal Awards (SEFA). The expenditures in the General fund were payroll related and there was no consideration of matching teachers' retirement. Normally, it would be allowable to carryover these funds, however, the District did not have a large enough fund balance in the child nutrition fund to support all of this carryover.

We recommend that a procedure be implemented, which requires a reconciliation be performed at the end of each fiscal year, for each federal program, to ensure that the amount claimed for reimbursement, or received as a function of the services provided, agrees with the amount that is coded to the programs project code. We also recommend that the District reopen their OCAS data and make the necessary coding changes so the audited financial statements will agree to the OCAS data.

Building Fund Transfer

We observed during the audit the District transferred \$31,000, from the Building fund to the General fund. The District decided to start making allowable expenditures out of the Building fund that were currently being paid from the General fund as a way of maintaining/increasing the General fund balance. Since expenditure had already been paid from the General fund, the District reimbursed the General fund in the form of a transfer instead of making a correcting entry or issuing a purchase order from the Building Fund to reimburse the General fund (an arms-length transaction) for the expenditures. We recommend that the District plan and decide at the beginning of each fiscal year from what fund certain expenditures will be made from, and that the District reimburse or make the appropriate correcting entry to correct any future issues between funds.

Fuel Cards

We observed that some of the fuel cards had the names of employees on them which are no longer employed by the District. We recommend that these cards be disposed of and that for any cards obtained by the District, that only the name of the District or the transportation directors' name appear on the cards.

Payroll


We observed one (1) instance (i.e. driver education) where the employee was paid for the extra-duty, however, there was not a signed extra duty contract in place. We recommend that an extra duty contract be created for these types of duties, be approved by the Board, and attached to their employment contract.

General Fund Balance

We observed during the audit that the General Fund fund balance, as of June 30, 2016, slightly increased over the previous years' fund balance. Management made significant expenditure reductions during the 15-16 fiscal year to account for the increase. We are aware of funding cuts at the state level, however, we still recommend that the District carefully monitor its revenues and expenditures during the fiscal year 2016-17, so the General Fund will continue to increase.

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,



Jeffrey D. Hewett

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP