

ZION SCHOOL DISTRICT C-28

AUDIT REPORT

STILWELL, ADAIR COUNTY, OKLAHOMA

JUNE 30, 2016



ZION SCHOOL DISTRICT NO C-28
ADAIR COUNTY, OKLAHOMA
JUNE 30, 2016
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Zion Public School, C-28
Stilwell, Oklahoma

I have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Zion School District No. C-28 (the School), Adair County, Oklahoma, as of and for the year ended June 30, 2016, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education as described in Note 1, to meet the requirements of the State of Oklahoma. 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 error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

As described in Note I to the financial statements, to meet the financial reporting requirements of the Oklahoma State Department of Education, the financial statements are prepared by the School on the basis of the financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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 State of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School, as of June 30, 2016, or the revenues, expenses, and changes in net position and, where applicable, cash flows thereof for the year then ended.

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 or permitted by the Oklahoma State Department of Education noted above. The amount that should be recorded in the general fixed asset account group is not known.

However, in my opinion, except for the effects of the omission of the general fixed asset account group, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balances arising from regulatory basis transactions of each fund type and account group of the School as of June 30, 2016, and the revenues collected and expenditures paid and encumbered, of each fund type, for the year then ended, on the regulatory basis of accounting described in Note 1.

Other Matters

Other information

My audit was conducted for the purpose of forming opinions on the fund type and account group financial statements within the combined financial statements. The combining fund statements and schedules and other schedules as listed in the table of contents, under other supplementary information, are presented for purposes of additional analysis and are not a required part of the combined financial statements of the District.

This other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the other supplementary information and the schedule of federal awards are fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 9, 2017, on my consideration of the School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and 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 School's internal control over financial reporting and compliance.



Michael Green, CPA
March 9, 2017

ZION SCHOOL DISTRICT NO. C028
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	Total (Memorandum Only)
	General Fund	Special Revenue	Trust and Agency	
ASSETS				
Cash and cash equivalents (Note 2)	\$ 644,800.27	\$ 166,940.90	\$ 25,260.97	\$ 837,002.14
Investments	-	-	-	-
Amount to be provided for capitalized lease agreements	-	-	-	-
Amounts available in debt service fund	-	-	-	-
Amounts to be provided for retirement of general long-term debt	-	-	-	-
Total assets	<u>\$ 644,800.27</u>	<u>\$ 166,940.90</u>	<u>\$ 25,260.97</u>	<u>\$ 837,002.14</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Outstanding warrants	\$ 166,604.75	\$ 37,679.09	\$ -	\$ 204,283.84
Encumbrances	-	-	-	-
Long-term debt				
Bonds payable	-	-	-	-
Interest payable	-	-	-	-
Capital leases	-	-	-	-
Due to student activities	-	-	25,260.97	25,260.97
Total liabilities	<u>166,604.75</u>	<u>37,679.09</u>	<u>25,260.97</u>	<u>229,544.81</u>
Fund equity:				
Unreserved:				
Designated for capital projects	-	-	-	-
Designated for debt service	-	-	-	-
Unassigned	478,195.52	129,261.81	-	607,457.33
Total fund balances	<u>478,195.52</u>	<u>129,261.81</u>	<u>-</u>	<u>607,457.33</u>
Total liabilities and fund equity	<u>\$ 644,800.27</u>	<u>\$ 166,940.90</u>	<u>\$ 25,260.97</u>	<u>\$ 837,002.14</u>

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

ZION SCHOOL DISTRICT NO. C028
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES,
AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
JUNE 30, 2016

	Governmental Fund Types		Fiduciary Fund Types	Total (Memorandum only)
	General Fund	Special Revenue	Trust and Agency	
Revenues collected:				
Local sources	\$ 89,685.71	\$ 5,106.35	\$ 147,764.41	\$ 242,556.47
Intermediate sources	142,931.69	16,406.39	-	159,338.08
State sources	1,940,976.14	16,435.85	-	1,957,411.99
Federal sources	410,567.76	210,078.96	-	620,646.72
Total revenues collected	<u>2,584,161.30</u>	<u>248,027.55</u>	<u>147,764.41</u>	<u>2,979,953.26</u>
Expenditures paid:				
Instruction	1,780,424.00	-	154,548.78	1,934,972.78
Support Services	722,165.27	37,641.00	-	759,806.27
Non-Instructional services	-	213,292.49	-	213,292.49
Capital outlay	-	-	-	-
Other outlays	-	-	-	-
Debt services:				
Principal retirement	-	-	-	-
Interest	-	-	-	-
Total expenditures paid	<u>2,502,589.27</u>	<u>250,933.49</u>	<u>154,548.78</u>	<u>2,908,071.54</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>81,572.03</u>	<u>(2,905.94)</u>	<u>(6,784.37)</u>	<u>71,881.72</u>
Adjustments to prior year encumbrances	-	-	-	-
Other financing sources (uses):				
Bond sale proceeds	-	-	-	-
Operating transfers in & estopped warrants	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	81,572.03	(2,905.94)	(6,784.37)	71,881.72
Fund balances, beginning of year	<u>396,623.49</u>	<u>132,167.75</u>	<u>32,045.34</u>	<u>560,836.58</u>
Fund balances, end of year	<u>\$ 478,195.52</u>	<u>\$ 129,261.81</u>	<u>\$ 25,260.97</u>	<u>\$ 632,718.30</u>

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

ZION SCHOOL DISTRICT NO. C028
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL-
GENERAL, SPECIAL REVENUE AND DEBT SERVICE FUNDS-REGULATORY BASIS
JUNE 30, 2016

	General Fund			Special Revenue Funds (Building and Child Nutrition only)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues collected:						
Local sources	\$ 30,000.00	\$ 30,000.00	\$ 89,685.71	\$ -	\$ -	\$ 5,106.35
Intermediate sources	149,079.69	149,079.69	142,931.69	15,616.58	15,616.58	16,406.39
State sources	1,957,603.27	1,957,603.27	1,940,976.14	14,673.57	14,673.57	16,435.85
Federal sources	249,443.05	249,443.05	410,567.76	183,915.30	183,915.30	210,078.96
Supplemental revenue adjustments	-	-	-	-	-	-
Total revenues collected	<u>2,386,126.01</u>	<u>2,386,126.01</u>	<u>2,584,161.30</u>	<u>214,205.45</u>	<u>214,205.45</u>	<u>248,027.55</u>
Expenditures paid:						
Instruction	2,060,584.23	2,060,584.23	1,780,424.00	-	-	-
Support services	722,165.27	722,165.27	722,165.27	91,580.93	91,580.93	250,933.49
Non-instructional services	-	-	-	254,792.27	254,792.27	-
Capital outlays	-	-	-	-	-	-
Other outlays	-	-	-	-	-	-
Total expenditures paid	<u>2,782,749.50</u>	<u>2,782,749.50</u>	<u>2,502,589.27</u>	<u>346,373.20</u>	<u>346,373.20</u>	<u>250,933.49</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(396,623.49)</u>	<u>(396,623.49)</u>	<u>81,572.03</u>	<u>(132,167.75)</u>	<u>(132,167.75)</u>	<u>(2,905.94)</u>
Adjustments to prior year encumbrances	-	-	-	-	-	-
Other financing sources (uses):						
Operating transfers in & estopped warr.	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(396,623.49)</u>	<u>(396,623.49)</u>	<u>81,572.03</u>	<u>(132,167.75)</u>	<u>(132,167.75)</u>	<u>(2,905.94)</u>
Fund balances, beginning of year	<u>396,623.49</u>	<u>396,623.49</u>	<u>396,623.49</u>	<u>132,167.75</u>	<u>132,167.75</u>	<u>132,167.75</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 478,195.52</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,261.81</u>

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

ZION SCHOOL DISTRICT No. C-28
NOTES TO THE FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. Summary of Significant Accounting Policies

The financial statements of the Zion Public School District No. C-28 (the "District") have been prepared on a regulatory basis of accounting, which is an other comprehensive basis of accounting than generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles. The accounting policies are prescribed by the Oklahoma Department of Education and conform to the system of accounting authorized by the State of Oklahoma. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

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

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

The Board of School Trustees (Board), and elected member group 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 Board receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the Board 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.

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.

Special Revenue Fund - The first special revenue fund is the District's Building Fund. The Building fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

The second special revenue fund is the Child Nutrition Fund, a special revenue fund used to account for monies derived from federal and state reimbursement and local food service collection.

Debt Service Fund - The debt service fund is the District's Sinking Fund and is used to account for the accumulation of financial resources for the payment of general long-term debt principal,

interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

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

Proprietary Fund Types

Any proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the District (internal service funds). The District does not have any proprietary funds.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

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

Account groups

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

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for compensated absences and early retirement incentives which are to be paid from funds provided in future years.

General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the school district. The district does not maintain a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted accounting

principles, is not included in the financial statements. Land, buildings, nonstructural improvements, and all other physical assets in all funds are considered expenditures in the year of acquisition and are not recorded as assets for financial statement purposes.

Memorandum Only - Total Column

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

C. Basis of Accounting

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

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

- a. Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- b. Investments and inventories are recorded as assets when purchased.
- c. Inventories of school supplies are recorded as expenditures and not as assets.
- d. Warrants payable are recorded as liabilities when issued.
- e. Long-term debt is recorded when incurred.
- f. Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.
- g. A General Fixed Asset Account Group is required or expected by the Department of Education and is presented in such an account group but is not depreciated.
- h. Management’s Discussion and Analysis (MD&A) is not required to be present.

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.

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 measurements made, regardless of the measurement focus applied.

All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. Revenues are recognized when they are received rather than earned. Under the Statutory basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability s incurred, Fiduciary type funds are accounted for using the cash basis of accounting. These practices differ from generally accepted accounting principles.

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 the General Fund, Special Revenue Funds (Building Fund and Child Nutrition Fund) and the Debt Service Fund, that includes revenues and expenditures.

The 2017-18 Estimate of Needs was approved by the Board and subsequently filed with the County Clerk. The Estimate of Needs was approved by the excise board and the requested levies were made.

E. Encumbrances

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. Appropriations not used or encumbered lapse at the end of the year.

F. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents - The District considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less.

Investments - Investments consist of direct obligations of the United States Government and Agencies with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

Property Tax Revenues - The District is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half is due prior to April 1.

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

Inventories – Purchases for inventory items are considered expenditures when the items are encumbered.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group is not presented. The amount that should be recorded in the General Fixed Asset Account Group is not known.

Compensated Absences – Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has not been reported as an expenditure or a fund liability of the governmental fund that will pay it since the combined financial statements have been prepared on the regulatory basis of accounting. Vested accumulated rights to receive sick pay benefits have not been reported in the general long-term debt account group since the combined financial statements have been prepared on the regulatory basis of accounting. These practices differ from generally accepted accounting principles in the United States of America.

In accordance with the provisions of professional standards on accounting for compensated absences, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group since none of the vested sick leave is expected to be liquidated with expendable available financial resources.

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

G. Revenue, Expenses and Expenditures

State Revenues - Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school 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 or additions of revenue of the year when the adjustment is made.

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

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during fiscal year 2016.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. Cash and Investments

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies; Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. As of the current fiscal year end, the District's bank balance was \$837,002. This balance was covered by FDIC and collateral pledged by the bank.

Therefore, the District's cash deposits and investments at June 30, 2016, were not exposed to Custodial Credit Risk, Investment Credit Risk, Investment Interest Rate Risk, or Concentration of Investment Credit Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

3. Interfund Receivables and Payables

There were no interfund receivables and 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 from the date of issue. General long-term debt of the District consists of bonds payable, obligations for compensated absences, early retirement incentive and capital leases. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund.

The District has no long-term debt transactions for the year ended June 30, 2016.

5. Other Post Employment Benefits

The District does not offer any early retirement incentive plans.

6. Employee Retirement System

The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). Under the system, contributions are made by the District, the State of Oklahoma, and the participating employees.

Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a Board of Trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The District has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years on contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date.

When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death.

The contribution rates for the District, which are not actuarially determined, and its employees are

established by law. The District is required by statute to contribute 9.5% of applicable compensation for the year ended June 30, 2016. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The District's contributions to the System for the years ending

June 30, 2016	\$165,664
June 30, 2015	\$159,687
June 30, 2014	\$155,462

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System.

The system issues an independent financial report, financial statements, and required supplementary information that 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.

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

Schedule of funding progress (dollars in millions) (unaudited)

Actuarial Valuation Date	Actuarial value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
June 30, 2006	7,470.40	15,143.40	7,672.90	49.30%	3,354.90	228.70%
June 30, 2007	8,421.90	16,024.40	7,602.50	52.60%	3,598.90	211.20%
June 30, 2008	9,256.80	18,346.90	9,090.10	50.50%	3,751.40	242.30%
June 30, 2009	9,439.00	18,950.90	9,512.00	49.80%	3,807.90	249.80%
June 30, 2010	9,566.70	19,980.60	10,414.00	47.90%	3,854.80	270.20%
June 30, 2011	9,960.60	17,560.80	7,600.20	56.70%	3,773.30	201.40%
June 30, 2012	10,190.50	18,558.00	8,397.60	54.80%	3,924.80	214.00%
June 30, 2013	10,861.10	18,973.20	8,112.10	57.20%	3,933.10	206.30%
June 30, 2014	12,369.00	19,575.60	7,206.60	63.20%	4,304.30	167.40%
June 30, 2015	13,771.90	20,692.60	6,920.70	66.60%	4,231.80	163.50%

The employer contribution rates are established by the Oklahoma Legislature and are less than the annual required contribution, which is performed to determine the adequacy of such contribution rates.

7. Contingencies and Other Commitments

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

8. Insurance Coverage

The District purchases commercial insurance policies covering property casualty loss, public liability, school board member and administrator liability, and workers compensation. The District also purchases surety bonds for employees in all positions required by state law to be bonded. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

9. Accumulated Unpaid Vacation, Sick Leave Benefits, and Health Care Coverage

The District provides sick leave benefits to the certified staff in accordance with Title 70, Article 6-104, of the Oklahoma Statutes, which provides for an annual accrual of sick leave of ten days and personal business days accrual of three days. Ten days are allowed to accumulate up to a total of sixty days per employee. None of the benefits are payable upon retirement or death.

10. Subsequent Events

Subsequent events have been evaluated through the date of the auditor's report, which is the date the financial statements were available to be issued.

ZION SCHOOL DISTRICT C028
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

	Building Fund	Child Nutrition Fund	Total
ASSETS			
Cash	\$ 85,370.74	\$ 81,570.16	\$ 166,940.90
Investments	-	-	-
Total assets	<u>\$ 85,370.74</u>	<u>\$ 81,570.16</u>	<u>\$ 166,940.90</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Outstanding warrants	\$ 30,641.00	\$ 7,038.09	\$ 37,679.09
Encumbrances	-	-	-
Total liabilities	30,641.00	7,038.09	37,679.09
Fund balances:	<u>54,729.74</u>	<u>74,532.07</u>	<u>129,261.81</u>
Total liabilities and fund balances	<u>\$ 85,370.74</u>	<u>\$ 81,570.16</u>	<u>\$ 166,940.90</u>

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

ZION SCHOOL DISTRICT C028
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES,
AND CHANGES IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
JUNE 30, 2016

	Building Fund	Child Nutrition Fund	Total
Revenues Collected:			
District sources	\$ -	\$ 5,106.35	\$ 5,106.35
Intermediate sources	16,406.39	-	16,406.39
State sources	-	16,435.85	16,435.85
Federal sources	-	210,078.96	210,078.96
Total revenues collected	<u>16,406.39</u>	<u>231,621.16</u>	<u>248,027.55</u>
Expenditures paid:			
Instruction	-	-	-
Support services	37,641.00	-	37,641.00
Non-instruction services	-	213,292.49	213,292.49
Capital outlay	-	-	-
Other outlays	-	-	-
Total expenditures paid	<u>37,641.00</u>	<u>213,292.49</u>	<u>250,933.49</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(21,234.61)</u>	<u>18,328.67</u>	<u>(2,905.94)</u>
Adjustments to prior year encumbrances	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)			
Operating transfers in & estopped warr.	-	-	-
Operating transfer out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other resources over expenditures and other uses	<u>(21,234.61)</u>	<u>18,328.67</u>	<u>(2,905.94)</u>
Fund balances, beginning of year	<u>75,964.35</u>	<u>56,203.40</u>	<u>132,167.75</u>
Fund balances, end of year	<u>\$ 54,729.74</u>	<u>\$ 74,532.07</u>	<u>\$ 129,261.81</u>

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

**ZION SCHOOL DISTRICT C028
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - SPECIAL REVENUE (BUILDING AND CHILD NUTRITION ONLY) FUNDS-REGULATORY BASIS
 JUNE 30, 2016**

	Special Revenue Funds					
	Building Fund		Child Nutrition Fund			
	Orig budget	Final budget	Actual	Orig budget	Final budget	Actual
Revenues collected:						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,106.35
Intermediate sources	15,616.58	15,616.58	16,406.39	-	-	-
State sources	-	-	-	14,673.57	14,673.57	16,435.85
Federal sources	-	-	-	183,915.30	183,915.30	210,078.96
Supplemental Revenue adjustments	-	-	-	-	-	-
Total revenues collected	<u>15,616.58</u>	<u>15,616.58</u>	<u>16,406.39</u>	<u>198,588.87</u>	<u>198,588.87</u>	<u>231,621.16</u>
Expenditures paid:						
Instruction	-	-	-	-	-	-
Support services	91,580.93	91,580.93	37,641.00	-	-	-
Non-instruction services	-	-	-	254,792.27	254,792.27	213,292.49
Capital outlay	-	-	-	-	-	-
Other outlays	-	-	-	-	-	-
Total expenditures paid	<u>91,580.93</u>	<u>91,580.93</u>	<u>37,641.00</u>	<u>254,792.27</u>	<u>254,792.27</u>	<u>213,292.49</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(75,964.35)</u>	<u>(75,964.35)</u>	<u>(21,234.61)</u>	<u>(56,203.40)</u>	<u>(56,203.40)</u>	<u>18,328.67</u>
Adjustments to prior year encumbrances	-	-	-	-	-	-
Other financing sources (uses)	-	-	-	-	-	-
Operating transfers in & estopped war	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(75,964.35)</u>	<u>(75,964.35)</u>	<u>(21,234.61)</u>	<u>(56,203.40)</u>	<u>(56,203.40)</u>	<u>18,328.67</u>
Fund balances, beginning of year	<u>75,964.35</u>	<u>75,964.35</u>	<u>75,964.35</u>	<u>56,203.40</u>	<u>56,203.40</u>	<u>56,203.40</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,729.74</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,532.07</u>

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

**ZION SCHOOL DISTRICT CO28
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
FIDUCIARY FUNDS-REGULATORY BASIS
JUNE 30, 2016**

	Agency Fund <u>Activity</u> <u>Funds</u>
ASSETS	
Cash	\$25,260.97
Investments	-
Due from other funds	<u>-</u>
Total assets	<u><u>\$25,260.97</u></u>
LIABILITIES AND FUND EQUITY	
Liabilities:	
Due to student, parent and booster activities	\$25,260.97
Due to administrative activities	<u>-</u>
Total liabilities	25,260.97
Fund balance:	
Reserved	-
Unreserved/undesignated	<u>-</u>
Total fund balance	<u><u>-</u></u>
Total liabilities and fund balances	<u><u>\$25,260.97</u></u>

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

ZION SCHOOL DISTRICT C028
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FIDUCIARY FUNDS - REGULATORY BASIS
JUNE 30, 2016

ACTIVITIES	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
OTHER	\$ 5,949.04	\$ 19,757.30	\$ 19,080.59	\$ 6,625.75
ATHLETICS	14,517.93	78,630.60	88,877.19	4,271.34
8TH GRADE	23.87	8,463.56	8,487.30	0.13
CHRISTMAS	1,055.85	8,239.85	8,437.51	858.19
YEARBOOK	738.09	472.00	1,000.00	210.09
CHEERLEADERS	531.44	12,140.59	10,005.23	2,666.80
4-H	2,719.28	4,481.50	4,884.20	2,316.58
GIFTED	1,068.54	5,035.12	4,835.08	1,268.58
PRESCHOOL	2.36	97.44	97.44	2.36
1ST GRADE	-	679.00	679.00	-
4TH GRADE	1,338.25	4,398.95	4,284.51	1,452.69
SPECIAL ED	2,419.84	-	-	2,419.84
7TH GRADE	3.35	2,371.50	2,265.97	108.88
2ND GRADE	281.48	192.00	192.00	281.48
6TH GRADE	195.61	-	-	195.61
3RD GRADE	591.49	-	205.00	386.49
ACADEMIC	608.92	2,805.00	1,217.76	2,196.16
TOTAL ACTIVITY	\$ 32,045.34	\$ 147,764.41	\$ 154,548.78	\$ 25,260.97
ASSETS				
Cash	32,045.34	147,764.41	154,548.78	25,260.97
LIABILITIES				
Due to student, parent and booster activities	32,045.34	147,764.41	154,548.78	25,260.97

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

MICHAEL W. GREEN
Certified Public Accountant
827 West Locust Street
Stilwell, Ok. 74960
(918) 696-6298

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

To the Board of Education
Zion Public School, C-28
Stilwell, Oklahoma

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements-regulatory basis of Zion School District No. C-28 (the School), Oklahoma as listed in the Table of Contents, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued my report thereon dated March 9, 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, my report was qualified for the omission of general fixed asset account groups with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

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

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


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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized with a large, circular flourish at the end.

Michael Green, CPA
March 9, 2017

ZION SCHOOL DISTRICT C028
SCHEDULE OF FEDERAL AWARDS
JULY 1, 2015 TO JUNE 30, 2016

Program	Federal CFDA Number	Grantor's Number	Grant Award	Federal Grant Receipts	Expenditures
<u>U.S. Department of Education</u>					
Direct Programs:					
P.L. 874	84.041	591, 592	158,728	158,728	\$ 193,275
Indian Ed	84.060	561	54,782	54,782	<u>54,782</u>
Sub Total					<u>248,057</u>
<u>Passed Through State Dept. of Education:</u>					
Title I	84.010	511	82,663	82,164	90,639
RURAL EDUCATION	84.358	588	25,045	19,677	19,677
Title II Part A	84.358	586	13,026	15,095	15,095
Special Education Cluster:					
Flow Through	84.027	621	67,694	67,640	67,640
IDEA- B Preschool	84.173	641	2,488	2,485	2,485
Total Special Education Cluster					<u>70,125</u>
Sub Total					<u>195,536</u>
<u>Passed Through the Cherokee Nation of Oklahoma</u>					
Johnson O'Malley	15.130	563	11,790	9,998	<u>9,941</u>
<u>U.S. Department of Agriculture</u>					
<u>Passed Through State Dept. of Education:</u>					
Child Nutrition Cluster:					
School Breakfast Program-Cash Assistance	10.553	764	62,027	62,027	53,538
National School Lunch Program:					
Cash Assistance	10.555	763	148,052	148,052	138,366
Non-cash Assistance: Commodities	10.555		9,079	9,079	<u>9,079</u>
Child Nutrition Cluster Sub Total					<u>200,983</u>
Total Federal Assistance Expenditures					<u>\$ 654,516</u>

Note A: Food Distribution Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note B: This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements, except for the nonmonetary assistance noted in Note A.

ZION SCHOOL DISTRICT NO C-28
SCHEDULE OF STATUTORY, FIDELITY, AND HONESTY BONDS
JUNE 30, 2016

<u>Position</u>	<u>Bonded By</u>	<u>Policy Number</u>	<u>Term</u>	<u>Amount</u>
Treasurer	Western Surety Co.	71300587	7-16-15 / 7-16-16	100,000.00
Encumbrance Clerk	Western Surety Co.	14239146	7-29-15 / 7-29-16	1,000.00
Minute Clerk	Western Surety Co.	54708519	7-1-15 / 7-1-16	1,000.00
Superintendent	Western Surety Co.	15534549	3-22-16 / 3-22-17	2,000.00
Activity Fund Custodian	Western Surety Co.	54944150	7-1-15 / 7-1-16	5,000.00