




JOY HOFMEISTER

STATE SUPERINTENDENT OF PUBLIC INSTRUCTION
OKLAHOMA STATE DEPARTMENT OF EDUCATION

MEMO

To: Joy Hofmeister, State Superintendent and Chair
State Board of Education

From: David L. Kinney, General Counsel 
State Department of Education

In Re: Swink Dependent School District No. C-21

Date: October 30, 2015

Over the last several months, Oklahoma State Department of Education ("OSDE") staff and I have reviewed the *Financial Statements-Statutory Basis and Reports of Independent Auditor* of Swink Dependent School District No. C-21, Choctaw County, Oklahoma, dated June 30, 2015. Our review has included discussions with Gary Jones, State Auditor and Inspector for the State of Oklahoma and the Oklahoma Accountancy Board.

The audit was performed by Sanders, Bledsoe & Hewett, Certified Public Accountants, LLP of Broken Arrow, Oklahoma. A summary of the Auditor's Results is found on page 11 of the audit:

1. An adverse opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed a significant deficiency in the internal controls over financial reporting, 2015-1, which was a material weakness.
3. The audit disclosed a material instances of noncompliance that is required to be reported under Government Auditing Standards described below as item 2015-1. (Complete copy of audit is attached to this memorandum).

Note 15-1 titled "Misappropriation of Assets" outlines several instances of fraud by the treasurer and encumbrance clerk, including:

- a) Altering 29 school district checks over 4 fiscal years in the amount of \$36,688.57 (page 12)
- b) Improper travel requests over 4 fiscal years in the amount of \$64,951.80 (pages 12-13)
- c) Unapproved fuel charge cards over 5 fiscal years in the amount of \$89,304.88 (page 13)
- d) Unauthorized purchases over 5 fiscal years in the amount of \$44,051.48 (pages 13-14)

Total questioned costs over 5 fiscal years totaled \$234,996.73. (page 14). The school district responded in the audit that the encumbrance clerk and treasurer were suspended with pay pending further investigation and termination hearings. Also law enforcement had been notified and were conducting their own investigation. (page 15).

Sanders, Bledsoe & Hewett, Certified Public Accountants performed annual audits of the Swink School Districts since at least the 2010-11 fiscal years. These past audits did not discover this fraud and the audits had the following language in the reports:

“The audit disclosed no significant deficiencies in the internal controls over financial reporting, none of which were considered to be material weaknesses.” (2013-14 audit, page 10; 2012-13 audit, page 10; 2011-12 audit, page 10; 2010-11 audit, page 10).

Under the Oklahoma Public School Audit Law, “The State Board of Education may make inquiries it deems necessary to determine that each district board of education is properly complying with the Oklahoma Public School Audit Law.” 70 O.S. § 22-108(D). “All accounting systems and procedures used by the school districts of the State of Oklahoma shall conform with the accounting systems and procedures prescribed by the State Board of Education.” 70 O.S. § 22-113. “All further payments of state aid for each district shall be withheld until the provisions of this article [Oklahoma Public School Audit Law] have been fulfilled by said district.” 70 O.S. § 22-112.

Board Rules provide “The State Board of Education shall examine each audit report and demand corrections of any existing deficiencies. It is mandatory that State Aid payments be withheld during noncompliance with the ‘School Audit Law’ at 70 O.S. § 22-101 et. seq.” 210:25-5-5 (a). “The State Board of Education may make inquiries and request additional documentation and response related to exceptions, recommendations or comments noted by an auditor.” 210:25-5-5(e)(4).

It is my recommendation that the President of the Swink Board of Education, the Superintendent of Swink school, and any additional employees with knowledge of this matter appear before the State Board of Education to explain how this fraud happened, what corrective action has been taken, and what preventive measures have been implemented to prevent future occurrences. I also recommend that the auditing firm also attend this meeting to answer questions from the State Board of Education.

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

**SWINK DEPENDENT SCHOOL DISTRICT NO. C-21,
CHOCTAW COUNTY, OKLAHOMA**

JUNE 30, 2015

Audited by

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

BROKEN ARROW, OK

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015

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SCHOOL DISTRICT TREASURER

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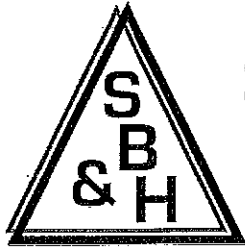
DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
JUNE 30, 2015

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JUNE 30, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

August 21, 2015

The Honorable Board of Education
Swink School District Number C-21
Swink, Choctaw County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements -- regulatory basis of the Swink School District Number C-21, Swink, Choctaw County, Oklahoma (the District), as of and for the year ended June 30, 2015, and the related notes to the 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. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse 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, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Adverse Opinion on Regulatory Basis of Accounting

As described in finding 15-1 in the accompanying Schedule of Audit Results, Findings and Questioned Costs, the District had a misappropriation of assets that were deemed to be material to the fair presentation of the financial statements.

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

Adverse Opinion on Regulatory Basis of Accounting

In our opinion, because of the significance of the matters described in the “Basis for Adverse Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph do not present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2015, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

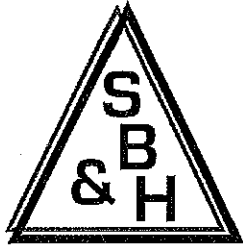
The combining statements – regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and to other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

August 21, 2015

The Honorable Board of Education
Swink School District Number C-21
Swink, Choctaw 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 Swink School District Number C-21, Swink, Choctaw County, Oklahoma (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated August 21, 2015, 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. The report was adverse for the omission of the general fixed asset account group and the misappropriation of assets with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Audit Results, Findings and Questioned Costs as item 2015-1, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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, Finding and Questioned Costs, 2015-1, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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, Findings and Questioned Costs, as item 2015-1.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of audit results. 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 Accounts, LLP

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2015

There were no prior year significant deficiencies.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS, & QUESTIONED COSTS
JUNE 30, 2015

Section 1 - Summary of Auditor's Results:

1. An adverse opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed a significant deficiency in the internal controls over financial reporting, 2015-1, which was a material weakness.
3. The audit disclosed a material instances of noncompliance that is required to be reported under *Government Auditing Standards* described below as item 2015-1.

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

15-1: Misappropriation of Assets

Condition: During our audit work in July 2015, it was discovered that the treasurer was falsifying school district checks, originally issued to legitimate vendors, by altering the actual checks to be payable to herself. Upon further investigation, it was discovered that travel requests, by both the treasurer and encumbrance clerk were falsified, resulting in excessive amounts of travel reimbursements to both employees. In addition, several unauthorized fuel cards were discovered, where fuel expenditures appeared to be much larger than normal for a District this size.

- a) During the 2014-15 fiscal year, it appears that the treasurer altered several school district checks issued in order to make them payable to herself or to her relatives. The total amount misappropriated from the school district by altering checks was in excess of \$13,000 for the 2014-15 fiscal year. Upon discovering this misappropriation, we reviewed bank records for the last five years, and discovered checks were altered in four out of the five periods. A listing of the years and amounts found to be fraudulent is as follows:

<u>Fiscal Year</u>	<u>Occurrences</u>	<u>Amount</u>
2014-15	13	\$ 13,499.42
2013-14	4	4,082.50
2012-13	6	10,606.65
2011-12	6	8,500.00
2010-11	0	-
Total	29	\$ 36,688.57

In addition, we found multiple checks issued to the treasurers relative for mowing services over this same time period. Of the \$8,880 issued, at least \$4,500 appears to be paid in excess of actual work performed.

Because this employee was in a position of financial authority, she was able to circumvent many of the controls the school district had in place to prevent fraud. It is also important to note that due to the collusion between the two employees, this scheme was able to go undiscovered for some time.

- b) Travel requests for the 2014-15 fiscal year were made by both the treasurer and encumbrance clerk, totaling \$23,502. These requests were supported with mileage documentation and an allowable travel purpose. However, it appears that the employees did not attend many of the classes that were stated on the request, or actually travel to the stated locations. Each request was photocopied in order for both employees to receive the same reimbursement amount.

The travel requests also had a stated policy for a \$66 per day meal per diem. There is no Board policy supporting this per diem amount. The requests also appeared to be approved by the Superintendent, by the initialing of each claim. Through inquiry with the Superintendent, we discovered that the claims being used were not approved by the Superintendent, and that the initials were not actually made by him, indicating the employees had been forging his signature for approval. According to Board minutes, encumbrance reports were approved at each board meeting, and these reports listed the travel expenditures. However, since the treasurer was the individual presenting these reports, the board did not properly observe each encumbrance and these expenditures were able to continue to be approved at each board meeting. It is also important to note that due to the collusion between the two employees, this scheme was able to go undiscovered for some time. Travel reimbursements to the two employees over the last four years are as follows:

Fiscal Year	Treasurer	Encumbrance Clerk	Combined	Questioned
			Estimated Reasonable Costs	Costs
2014-15	\$ 11,285.63	12,216.76	3,000.00	20,502.39
2013-14	9,804.98	15,236.02	3,000.00	22,041.00
2012-13	7,435.49	8,612.91	3,000.00	13,048.40
2011-12	5,395.80	6,964.21	3,000.00	9,360.01
Total	\$ 33,921.90	43,029.90	12,000.00	64,951.80

- c) Through inquiries with the Superintendent, we became aware that there were unapproved fuel charge cards in the District's name. After reviewing the fuel vendor statements, there are no reasonable explanations or supporting documentation for such large amounts of fuel being purchased. questioned fuel costs for the last five years are detailed below:

Fiscal Year	Questioned Costs
2014-15	\$ 26,637.35
2013-14	26,904.53
2012-13	19,148.26
2011-12	9,409.26
2010-11	7,205.48
Total	\$ 89,304.88

Fuel cards were issued to the District from Texaco Credit Card Center, Fleet Services Conoco, and Finish Line Fleet Department. All purchases made on the Texaco and Conoco cards are questionable fuel purchases, and lack any sufficient documentation to support a school purpose. The Finish Line cards appear to be mixed use. Vehicle mileage is to be recorded every time fuel is purchased. Most purchases do not have an accurate mileage number recorded, indicating these instances were not school related. In these instances, the mileage number is consistently a round number, usually 75,000 or 85,000 for every purchase. All of these purchases were also being approved at each board meeting through the encumbrances presented by the treasurer.

- d) Subsequent to the above findings being discussed with management, several vendor statements from Wal-Mart and Home Depot have been located that show unauthorized purchases. We reviewed a sample of these statements and observed several purchases that included alcohol, tobacco, video games, and other items that did not have a purpose intended for the District. A vendor comparison with estimated reasonable expenditures is as follows:

Fiscal Year	Wal-Mart	Home Depot	Less	Total
			Estimated Reasonable Expenditures	Questioned Costs
2014-15	\$ 30,121.30	10,910.69	12,000.00	29,031.99
2013-14	20,166.36	6,853.13	12,000.00	15,019.49
2012-13	11,271.98	304.12	11,576.10	-
2011-12	10,975.62	-	10,975.62	-
2010-11	5,910.60	-	5,910.60	-
Total	\$ 78,445.86	18,067.94	52,462.32	44,051.48

- e) It appears signature stamps are currently being used by the District to sign all checks. Through inquiry, it was discovered that the treasurer had possession of all these stamps. This weakness in controls makes it possible for one employee to circumvent all checks and balances, and perform fraudulent acts.

Criteria: School Districts are required, per Oklahoma Statue Title 70§5-135, to implement internal controls and procedures over purchasing to provide reasonable assurance that all district assets are adequately safeguarded.

Cause: The inherent limitations resulting from a small number of employees performing almost all the accounting functions, that would normally be divided among employees were a larger number available, prevent a proper segregation of duties. District internal controls and procedures were not being properly followed regarding the approval of purchases and the signing of checks.

Effect: Because of the lack of implementation and execution of procedures, several instances of misappropriation of assets has occurred in the approximate amount of \$89,671 for the 2014-15 fiscal year. A comparative summary of all questioned costs is detailed by category as follows:

Fiscal Year	Altered Checks	Travel (2 employees)	Fuel	Wal-Mart & Home Depot	Total
2014-15	\$ 13,499.42	20,502.39	26,637.35	29,031.99	89,671.15
2013-14	4,082.50	22,041.00	26,904.53	15,019.49	68,047.52
2012-13	10,606.65	13,048.40	19,148.26	-	42,803.31
2011-12	8,500.00	9,360.01	9,409.26	-	27,269.27
2010-11	-	-	7,205.48	-	7,205.48
Total	\$ 36,688.57	64,951.80	89,304.88	44,051.48	234,996.73

Recommendation: We recommend that the district enforce its current procedures and implement new procedures immediately to address the aforementioned conditions. Encumbrances should be carefully reviewed at each board meeting before approval. Updated, year-to-date encumbrance reports should be provided to the Board at every meeting. The Board should also approve warrant numbers at each meeting and compare them to the warrants that are being signed. In addition, if the Board elects to use signature stamps, the stamps should remain in the possession of each board member or an independent party who does not have access to the warrants.

We recommend that the Board adopt and enforce an updated policy for travel-related expenditures.

We recommend that all credit cards be cancelled and that the Board update the fuel credit card policies. We observed during the audit that there was no board policy authorizing the use of fuel credit cards in the name of the school district nor is there a written policy governing the use of and maintaining security over the cards. We recommend that such a policy be established.

We also recommend that the appropriate law enforcement officials be notified immediately and requested to take appropriate action regarding this fraudulent activity.

School District Response:

Swink Public School Board of Education and administration agree with Sanders, Bledsoe and Hewett's recent audit finding and opinion. The employee's that held the positions of encumbrance clerk and treasurer/payroll clerk are currently suspended with pay pending further investigation and termination hearing. Law enforcement has been notified and is currently conducting their own investigation.

Swink Public School Board of Education and administration plan to monitor, scrutinize and enforce current procedures and implement new procedures immediately to address issues. Encumbrances will be carefully reviewed at each board meeting before approval. Updated, year to date encumbrance reports will be provided to the BOE at every meeting. The BOE will approve warrant numbers at each meeting and compare them to the warrants that are signed. In addition, if the BOE elects to use signature stamps, the stamps will remain in the possession of each board member or an independent party who does not have access to the warrants.

All fuel cards will be cancelled and the BOE will update fuel credit card policies. Policies governing the use and security of fuel cards will be established.

Again, law enforcement officials were notified immediately and Swink School administration requested appropriate action be taken regarding this fraudulent activity.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 JUNE 30, 2015

	GOVERNMENTAL FUND TYPES			FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS			
<u>ASSETS</u>						
Cash	\$ 125,565					364,098
Investments	150,000	34,257	193,084	11,192		150,000
Amount to be provided for retirement of long-term debt					300,000	300,000
Total Assets	\$ 275,565	34,257	193,084	11,192	300,000	814,098

LIABILITIES AND FUND EQUITY

Liabilities:						
Warrants payable	\$ 34,705	44				34,749
Funds held for school organizations				11,192		11,192
Long-term debt:						
Bonds payable		44			300,000	300,000
Total liabilities	34,705	44	0	11,192	300,000	345,941
Fund Equity:						
Cash fund balances	240,860	34,213	193,084	0		468,157
Total Liabilities and Fund Equity	\$ 275,565	34,257	193,084	11,192	300,000	814,098

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW 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, 2015

	GOVERNMENTAL FUND TYPES			TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	
Revenues Collected:				
Local sources	\$ 155,029	31,154		186,183
Intermediate sources	18,269			18,269
State sources	1,164,334	1,248		1,165,582
Federal sources	185,882	139,602		325,484
Interest earnings			650	650
Return of assets	2,134			2,134
Total revenues collected	<u>1,525,648</u>	<u>172,004</u>	<u>650</u>	<u>1,698,302</u>
Expenditures:				
Instruction	767,640			767,640
Support services	659,186	39,163	107,566	805,915
Operation of non-instructional services	76,461	139,225		215,686
Facilities acquisition and construction services		4,162		4,162
Unbudgeted	6,421			6,421
Total expenditures	<u>1,509,708</u>	<u>182,550</u>	<u>107,566</u>	<u>1,799,824</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	15,940	(10,546)	(106,916)	(101,522)
Other financing sources (uses):				
Adjustments to prior year encumbrances	3,703			3,703
Bond proceeds			300,000	300,000
Total other financing sources (uses)	<u>3,703</u>	<u>0</u>	<u>300,000</u>	<u>303,703</u>
Excess of revenues collected over (under) expenditures	19,643	(10,546)	193,084	202,181
Cash fund balances, beginning of year	<u>221,217</u>	<u>44,759</u>	<u>0</u>	<u>265,976</u>
Cash fund balances, end of year	<u>\$ 240,860</u>	<u>34,213</u>	<u>193,084</u>	<u>468,157</u>

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW 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, 2015

	GENERAL FUND			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues Collected:				
Local sources	\$ 107,599	107,599	155,029	47,430
Intermediate sources	13,535	13,535	18,269	4,734
State sources	1,006,917	1,118,187	1,164,334	46,147
Federal sources	71,610	171,610	185,882	14,272
Return of assets			2,134	2,134
Total revenues collected	<u>1,199,661</u>	<u>1,410,931</u>	<u>1,525,648</u>	<u>114,717</u>
Expenditures:				
Instruction			767,640	(767,640)
Support services			659,186	(659,186)
Operation of non-instructional services			76,461	(76,461)
Unbudgeted	1,420,878	1,632,148	6,421	1,625,727
Total expenditures	<u>1,420,878</u>	<u>1,632,148</u>	<u>1,509,708</u>	<u>122,440</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(221,217)	(221,217)	15,940	237,157
Adjustments to prior year encumbrances	<u>0</u>	<u>0</u>	<u>3,703</u>	<u>3,703</u>
Excess of revenues collected over (under) expenditures	(221,217)	(221,217)	19,643	240,860
Cash fund balance, beginning of year	<u>221,217</u>	<u>221,217</u>	<u>221,217</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>240,860</u>	<u>240,860</u>

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW 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, 2015

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 25,696	25,696	31,154	5,458
State sources	1,042	1,042	1,248	206
Federal sources	80,846	130,846	139,602	8,756
Total revenues collected	107,584	157,584	172,004	14,420
Expenditures:				
Support services			39,163	(39,163)
Operation of non-instructional services			139,225	(139,225)
Facilities acquisition & construction services			4,162	(4,162)
Unbudgeted	152,343	202,343		202,343
Total expenditures	152,343	202,343	182,550	19,793
Excess of revenues collected over (under) expenditures	(44,759)	(44,759)	(10,546)	34,213
Cash fund balances, beginning of year	44,759	44,759	44,759	0
Cash fund balances, end of year	\$ 0	0	34,213	34,213

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of the Swink Public School Dependent District No. C-21 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

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

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

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

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

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

Governmental Fund Types

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

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

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds. The District did not maintain the co-op fund during the 2014-15 fiscal year.

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting - cont'd

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

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

Debt Service Fund – The debt service fund is the District's sinking fund and is used to account for the accumulation of financial resources for the payment of general long-term (including judgments) debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments. The District did not maintain this fund during the 2014-15 fiscal year.

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

Fiduciary Fund Types

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

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintain any expendable trust funds during the 2014-15 fiscal year.

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting – cont'd

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

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

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

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

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

Account Groups

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

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

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

Memorandum Only - Total Column

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting

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

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

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

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

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

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

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

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting – cont'd

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

D. Budgets and Budgetary Accounting

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

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

The 2014-15 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Total</u>
General	\$ 211,270
Child Nutrition	50,000

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.

E. Assets, Liabilities and Fund Equity

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

Investments – The District is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value.

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 General Fixed Assets Account Group is not presented.

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

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting.

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

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

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

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures

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

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

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

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

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

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2014-15 fiscal year.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

2. CASH AND INVESTMENTS

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2015, was \$364,612. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2015, the District's investments consisted certificates of deposits and of investment pools (sweep accounts) invested in money market funds with an approximate fair market value of \$150,000.

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

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

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2015.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015

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

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2015:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2014	\$ 0	112,847	112,847
Additions	300,000	0	300,000
Retirements	0	(112,847)	(112,847)
Balance, June 30, 2015	\$ 300,000	0	300,000

A brief description of the outstanding long-term debt at June 30, 2015, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, 2015, original issue \$300,000, interest rate of 3.00%, due in annual installments of \$35,000, final payment due 5-1-25	\$ 300,000

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015

4. GENERAL LONG-TERM DEBT – cont'd

The annual debt service requirements for retirement of capital lease principal and payment of interest are as follows:

Year Ending June 30	Principal	Interest	Total
2016	\$ 0	9,000	9,000
2017	20,000	9,000	29,000
2018	35,000	8,400	43,400
2019	35,000	7,350	42,350
2020	35,000	6,300	41,300
2021-2025	175,000	15,750	190,750
Total	\$ 300,000	55,800	355,800

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan

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

Basis of Accounting

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

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

Basis of Accounting – cont'd

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 2014-15 fiscal year, the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during this year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Annual Pension Cost

The District's total contributions for 2015, 2014 and 2013, were \$80,330, \$81,613 and \$58,202, respectively.

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. Please visit www.ok.gov/TRS for all plan information.

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.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2015

7. CONTINGENCIES

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2014-15 fiscal year. The revised OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expend more than \$500,000 in federal awards.

The District did not fall under this threshold during the 2014-15 fiscal year, therefore, this schedule is not required and is for information purposes only.

Litigation

District personnel state that they are not aware of any pending or threatened litigation.

Subsequent Events

Management has evaluated subsequent events through August 21, 2015, which is the date the financial statements were available to be issued, and have determined that no additional information needs to be added to the financial statements.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 JUNE 30, 2015

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 9,657	24,600	34,257
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$	44	44
Fund Equity:			
Cash fund balances	9,657	24,556	34,213
Total Liabilities and Fund Equity	\$ 9,657	24,600	34,257

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW 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, 2015

	BUILDING FUND	CHILD NUTRITION FUND	TOTAL
Revenues Collected:			
Local sources	\$ 20,866	10,288	31,154
State sources		1,248	1,248
Federal sources		139,602	139,602
Total revenues collected	<u>20,866</u>	<u>151,138</u>	<u>172,004</u>
Expenditures:			
Support services	33,958	5,205	39,163
Operation of non-instructional services		139,225	139,225
Facilities acquisition & construction services	4,162		4,162
Total expenditures	<u>38,120</u>	<u>144,430</u>	<u>182,550</u>
Excess of revenue collected over (under) expenditures	(17,254)	6,708	(10,546)
Cash fund balances, beginning of year	<u>26,911</u>	<u>17,848</u>	<u>44,759</u>
Cash fund balances, end of year	<u>\$ 9,657</u>	<u>24,556</u>	<u>34,213</u>

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW 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, 2015

	BUILDING FUND		CHILD NUTRITION FUND	
	ORIGINAL BUDGET	FINAL BUDGET	ORIGINAL BUDGET	FINAL BUDGET
Revenues Collected:				
Local sources	\$ 15,358	15,358	\$ 10,338	10,338
State sources			1,042	1,248
Federal sources			80,846	139,602
Total revenues collected	<u>15,358</u>	<u>15,358</u>	<u>92,226</u>	<u>142,226</u>
Expenditures:				
Support services		33,958		5,205
Operation of non-instructional services				139,225
Facilities acquisition & construction services		4,162		
Unbudgeted	42,269	42,269	110,074	160,074
Total expenditures	<u>42,269</u>	<u>42,269</u>	<u>110,074</u>	<u>160,074</u>
Excess of revenues collected over (under) expenditures	(26,911)	(26,911)	(17,848)	(17,848)
Cash fund balances, beginning of year	26,911	26,911	17,848	17,848
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>24,556</u>

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015

	<u>BALANCE</u> <u>7-01-14</u>	<u>ADDITIONS</u>	<u>NET</u> <u>TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6-30-15</u>
<u>ASSETS</u>					
Cash	\$ 4,730	33,352	0	26,890	11,192
 <u>LIABILITIES</u>					
Funds held for school organizations:					
Basketball	\$ 214	631	(71)	0	774
General	2,872	25,598		21,730	6,740
Concessions	187	1,798	71	807	1,249
Flower fund	11	0		0	11
Enrichment program	790	0		760	30
Archery	50	500		420	130
Alumni fund	100	1,093		0	1,193
Boys & Girls club	115	3,732		2,782	1,065
Swink T-Ball	391	0		391	0
Totals	\$ 4,730	33,352	0	26,890	11,192

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/14	Revenue Collected	Total Expenditures	Balance at 6/30/15
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060A	S060A140457	\$ 10,450		10,450	10,450	
Small School Achievement Grant	84.358A	S358A142837	16,637		16,637	16,637	
Sub Total			<u>27,087</u>	<u>0</u>	<u>27,087</u>	<u>27,087</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
Title I, Basic Program	84.010		62,290		60,215	60,215	
Title II, Part A	84.336		7,197		6,875	6,875	
IDEA-B Flow Through	84.027		45,633		43,191	43,191	
IDEA-B Preschool	84.173		8,944		8,944	8,944	
Sub Total			<u>124,064</u>	<u>0</u>	<u>119,225</u>	<u>119,225</u>	<u>0</u>
<u>U.S. Department of Agriculture:</u>							
<u>Direct Programs:</u>							
Community Facilities Grant			37,405		26,975	37,405	10,430
Community Facilities Grant 2013-14 - Note				12,595	12,595		
Community Facilities Grant			50,000		50,000	50,000	
Sub Total			<u>87,405</u>	<u>12,595</u>	<u>89,570</u>	<u>87,405</u>	<u>10,430</u>
<u>Passed Through State Department of Education:</u>							
<u>Child Nutrition Programs:</u>							
School breakfast program	10.553				27,015	27,015	
National school lunch program	10.555				60,019	54,315	
Summer food program	10.559				2,568	2,568	
Sub Total					<u>89,602</u>	<u>83,898</u>	
<u>Passed Through Department of Human Services:</u>							
Non-cash assistance - commodities - Note 1							
National school lunch program	10.555				4,869	4,869	
Total Federal Assistance			<u>\$ 238,556</u>	<u>12,595</u>	<u>330,353</u>	<u>322,484</u>	<u>10,430</u>

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

Note 1 - Commodities received by the District in the amount of \$4,869 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
 FOR THE YEAR ENDED JUNE 30, 2015

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
Old Republic Surety Group:	Administrative Secretary (activity fund, encumbrance clerk, minutes clerk)	W150064627	\$ 5,000	7/01/14 - 7/01/15
	Treasurer	LPO-2113164	100,000	7/01/14 - 7/01/15
Western Surety:	Superintendent	71390010	100,000	3/14/15 - 3/14/16

DEPENDENT SCHOOL DISTRICT NO. C-21, CHOCTAW COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT

JULY 1, 2014 TO JUNE 30, 2015

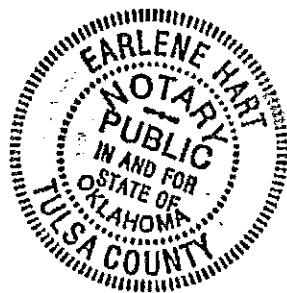
State of Oklahoma)
) ss
County of Tulsa)

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 Swink Public School for the audit year 2014-15.

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

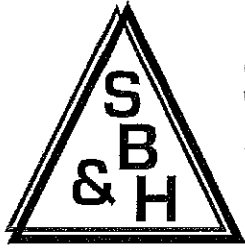
By Jeffrey D. Hewett
Authorized Agent

Subscribed and sworn to before me
This 21st day of August, 2015



Earlene Hart
Notary Public (or Clerk or Judge)

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



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

August 21, 2015

Mr. Mark Bush, Supt.
Swink Public School
P.O. Box 73
Swink, Oklahoma 74761-0073

Dear Mr. Bush:

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

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

During our audit work in July 2015, it was discovered that the treasurer was falsifying school district checks, originally issued to legitimate vendors, by altering the actual checks to be payable to herself. Upon further investigation, it was discovered that travel requests, by both the treasurer and encumbrance clerk were falsified, resulting in excessive amounts of travel reimbursements to both employees. In addition, several unauthorized fuel cards were discovered, where fuel expenditures appeared to be much larger than normal for a District this size. The District's Wal-Mart and Home Depot charge cards also appeared to have unauthorized purchases. This deficiency is detailed as item 2015-1 within the 2014-15 audit report.

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

Lack of Segregation of Duties

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls.

Activity Fund Deposits

We observed during our examination of activity fund collections that sponsors and event coordinators (athletic events) were frequently holding collections for several days and on some occasion's weeks before being turned in for deposit. Although these amounts were immaterial, we recommend sponsors turn in collections daily, or weekly if the collections are less than \$100.00. It appeared that the activity fund district-wide was depositing these funds in a proper and timely manner, but it was obvious that the sponsors (and collections from athletic events) were holding cash and checks collected from students and/or parents for too long before turning these funds into the office for deposit. Holding these funds overnight increases the opportunity for lost or stolen funds. 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.

Meal/Hotel Expenditures

We noted during our audit that some meal reimbursements did not have persons in attendance listed to document it was business related. We recommend that all amounts reimbursed for travel have proper supporting documentation, which would include the purpose of the trip, the names of all employees or students attending the event/meal, and a detailed receipt indicating all items that are claimed for reimbursement.

Appropriations

We observed during the audit that appropriation amounts for the general and special revenue funds were not properly broken out by the OCAS function codes as required by the Oklahoma State Department of Education. However, the District had an adequate amount of appropriations to cover all actual expenses. We recommend that budgeted appropriations be classified by the bold function expenditure codes, and that steps be taken to assure that expenditures do not exceed the budgeted amounts at year-end.

Equipment Inventory

Inventory records are currently maintained on a yearly basis. We recommend that a perpetual system be established for equipment. Such a system should either be recorded on a computer file or on index cards. The recommended information to be maintained for each item is a description of the item, the date of purchase, the purchase order number, the cost of the item (if known, actual cost should be used, if not known, an estimate of present value should be made), the serial number and/or model number, and the location of the item. New purchases should be added to the records on the date the items are received. When items are sold or scrapped, the disposition of the item should be

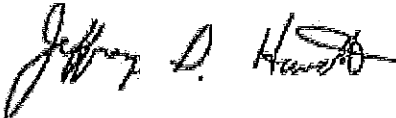
recorded in the records of the fiscal year in which it was disposed, on the date of disposition. We further recommend that a master list of equipment inventory be kept at the administration office and at the office of the insurance company that provides current coverage for buildings and contents and transportation equipment.

Federal Programs

We observed several instances where the amounts claimed for reimbursements did not match the amount coded according to OCAS. In most instances, the amounts were immaterial and were corrected during our visit, however, it is possible that you will be contacted about these differences by the SDE and you will need to prepare a written response explaining the coding errors. The amounts that will be included on the Schedule of Federal Expenditures (SEFA) will reflect the amount expended, not the amount according to OCAS.

We recommend that the District establish a procedure which requires that an employee other than the one filing the claims perform a reconciliation at the end of the fiscal year between the expenditures claimed for reimbursement and the expenditures actually coded to the program's project code on the detailed expenditure reports. This applies to all federal receipts.

Sincerely,



Jeffrey D. Hewett

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP