

**Lone Grove School District I-32**  
**Carter County, Oklahoma**

Financial Statements  
Year End June 30, 2015

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Lone Grove School District I-32  
Carter County, Oklahoma  
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## Independent Auditor's Report

The Honorable Board of Education  
Lone Grove School District I-32  
Lone Grove, Oklahoma 73456

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

We have audited the accompanying fund type and account group financial statements of Lone Grove School District I-32, Carter County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's regulatory financial statements as listed in the table of contents.

### **Management's Responsibility of the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed by 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 misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Adverse Opinion on U.S. Generally Accepting Accounting Principles**

As discussed in Note 1, the financial statements are prepared by Lone Grove School District I-32, Carter County, Oklahoma, on the basis of the financial reporting provisions of 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 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 reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement 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 Lone Grove School District I-32, Carter County, Oklahoma as of June 30, 2015, the changes in its financial position for the year then ended.

### **Basis for Qualified Opinion on General Fixed Asset Account Group**

As discussed in Note 1, the combined financial statements referred to above do not include the General Fixed Asset Account Group which should be included to conform with financial reporting provisions of Oklahoma State Department of Education. The amount that should be recorded in the General Fixed Asset Account Group is not known.

### **Qualified Opinion**

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion on General Fixed Asset Account Group” paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund equity arising from regulatory basis transactions of each fund type and account group of Lone Grove School District I-32, Carter County, Oklahoma, as of June 30, 2015, and the revenues collected and expenses paid and budgetary results for the year then ended on the basis of accounting described in Note 1.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lone Grove School District I-32 Carter County, Oklahoma financial statements as a whole. The accompanying Combining Schedules of Special Revenue Fund Financial Statements – Regulatory Basis and Combining Schedule of Changes in Cash Balances – Regulatory Basis – Activity Funds is presented for purpose of additional analysis and is not a

required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purpose 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 financial statements.

The Combining Schedules of Special Revenue Fund Financial Statements – Regulatory Basis, Combining Schedule of Changes in Cash Balances – Regulatory Basis – Activity Funds and 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Oklahoma Department of Education requires the statement of statutory fidelity and honesty bonds and Schedule of Accountant’s Professional Liability Insurance be presented to supplement the financial statements. Such information, although not considered part of the basic financial statements, is required by the Oklahoma Department of Education, who considers it an essential part of the financial reporting. We have applied certain limited procedures to this supplemental information which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management’s response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, on our consideration of Lone Grove School District I-32 Carter County, Oklahoma’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to express an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Lone Grove School District I-32 Carter County, Oklahoma’s internal control over financial reporting and compliance.

*Rahhal Henderson Johnson, PLLC*

Ardmore, Oklahoma  
February 29, 2016

Lone Grove School District I-32  
Carter County, Oklahoma  
Combined Statement of Assets, Liabilities and Fund Equity  
Regulatory Basis – All Fund Type and Account Groups  
June 30, 2015

	Governmental Fund Types				Fiduciary	Account	Total
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Trust and Agency	Group General Long Term Debt	(memorandum only - Note 1) June 30, 2015
<b>ASSETS</b>							
Cash	\$ 1,344,553	\$ 2,248,335	\$ 691,944	\$ 26,378	\$ 262,138	\$ -	\$ 4,573,348
Restricted Cash	-	-	223,080	-	-	-	223,080
Amount available in debt service fund	-	-	-	-	-	915,024	915,024
Amount to be provided for :							
Retirement of general long term debt	-	-	-	-	-	999,976	999,976
Capital leases	-	-	-	-	-	4,515,703	4,515,703
<b>Total Assets</b>	<u>\$ 1,344,553</u>	<u>\$ 2,248,335</u>	<u>\$ 915,024</u>	<u>\$ 26,378</u>	<u>\$ 262,138</u>	<u>\$ 6,430,703</u>	<u>\$ 11,227,131</u>
<b>LIABILITIES AND FUND EQUITY</b>							
Liabilities:							
Warrants payable	\$ -	\$ 80,038	\$ -	\$ -	\$ -	\$ -	\$ 80,038
Due to others	-	-	-	-	262,138	-	262,138
Capital leases payable	-	-	-	-	-	4,515,703	4,515,703
General obligation bonds payable	-	-	-	-	-	1,915,000	1,915,000
<b>Total Liabilities</b>	<u>-</u>	<u>80,038</u>	<u>-</u>	<u>-</u>	<u>262,138</u>	<u>6,430,703</u>	<u>6,772,879</u>
Fund Equity:							
Undesignated	707,248	2,168,297	915,024	26,378	-	-	3,816,947
<b>Total Cash Fund Balances</b>	<u>707,248</u>	<u>2,168,297</u>	<u>915,024</u>	<u>26,378</u>	<u>-</u>	<u>-</u>	<u>3,816,947</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 707,248</u>	<u>\$ 2,248,335</u>	<u>\$ 915,024</u>	<u>\$ 26,378</u>	<u>\$ 262,138</u>	<u>\$ 6,430,703</u>	<u>\$ 10,589,826</u>

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

Lone Grove School District I-32  
Carter County, Oklahoma  
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund Balances  
Regulatory Basis – All Governmental Fund Type  
For the Year Ended June 30, 2015

	Governmental Fund Types				Total (memorandum only - Note 1) June 30, 2015
	General	Special Revenue	Debt Service	Capital Projects	
Revenues collected:					
Local sources	\$ 1,397,637	\$ 711,017	\$ 1,218,795	\$ 39	\$ 3,327,488
Intermediate sources	315,720	-	-	-	315,720
State sources	6,456,505	7,216	-	-	6,463,721
Federal sources	696,625	304,693	-	-	1,001,318
Total Revenues Collected	<u>\$ 8,866,487</u>	<u>\$ 1,022,926</u>	<u>\$ 1,218,795</u>	<u>\$ 39</u>	<u>\$ 11,108,247</u>
Expenditures paid:					
Instruction	\$ 5,741,801	\$ 250,571	\$ -	\$ -	\$ 5,992,372
Support services	3,027,842	75,744	-	-	3,103,586
Non-Instructional services	75,643	416,491	-	-	492,134
Capital outlay	-	34,785	-	1,045,000	1,079,785
Debt service:					
Principal payments	-	-	1,175,000	-	1,175,000
Interest and fiscal agent fees	-	-	28,050	-	28,050
Total expenditures paid	<u>\$ 8,845,286</u>	<u>\$ 777,591</u>	<u>\$ 1,203,050</u>	<u>\$ 1,045,000</u>	<u>\$ 11,870,927</u>
Excess of revenues collected over (under) expenditures paid	\$ 21,201	\$ 245,335	\$ 15,745	\$ (1,044,961)	\$ (762,680)
Other financing sources:					
Bond sale proceeds	-	-	-	1,045,000	1,045,000
Excess of revenues collected and other sources over (under) expenditures paid and other uses	\$ 21,201	\$ 245,335	\$ 15,745	\$ 39	\$ 282,320
Cash fund balances, beginning of year	686,047	1,922,962	899,279	26,339	3,534,627
Cash fund balances, end of year	<u>\$ 707,248</u>	<u>\$ 2,168,297</u>	<u>\$ 915,024</u>	<u>\$ 26,378</u>	<u>\$ 3,816,947</u>

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

Lone Grove School District I-32  
Carter County, Oklahoma

Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund Balances – Budget and Actual  
Regulatory Basis – Budgeted Governmental Fund Types  
For the Year Ended June 30, 2015

	General Fund				Building Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Beginning cash fund balances - Budgetary basis	686,047	\$ 686,047	\$ 686,047	\$ -	\$ 1,790,597	\$ 1,790,597	\$ 1,790,597	\$ -
Revenues collected:								
Local sources	\$ 1,512,613	\$ 1,512,613	\$ 1,397,637	\$ (114,976)	\$ 168,949	\$ 168,949	\$ 183,791	\$ 14,842
Intermediate sources	289,000	289,000	315,720	26,720	-	-	-	-
State sources	6,515,848	6,515,848	6,456,505	(59,343)	-	-	-	-
Federal sources	805,634	805,634	696,625	(109,009)	-	-	-	-
Total Revenues Collected	<u>\$ 9,123,095</u>	<u>\$ 9,123,095</u>	<u>\$ 8,866,487</u>	<u>\$ (256,608)</u>	<u>\$ 168,949</u>	<u>\$ 168,949</u>	<u>\$ 183,791</u>	<u>\$ 14,842</u>
Expenditures paid:								
Instruction	\$ 5,742,000	\$ 5,742,000	\$ 5,741,801	\$ 199	\$ -	\$ -	\$ -	\$ -
Support services	3,032,001	3,032,001	3,027,842	4,159	76,000	76,000	75,744	256
Non-Instructional services	76,999	76,999	75,643	1,356	-	-	-	-
Capital outlay	-	-	-	-	1,883,546	1,883,546	34,785	1,848,761
Other outlays	958,142	958,142	-	958,142	-	-	-	-
Total Expenditures paid	<u>\$ 9,809,142</u>	<u>\$ 9,809,142</u>	<u>\$ 8,845,286</u>	<u>\$ 963,856</u>	<u>\$ 1,959,546</u>	<u>\$ 1,959,546</u>	<u>\$ 110,529</u>	<u>\$ 1,849,017</u>
Excess of revenues collected over (under) expenditures paid	<u>\$ (686,047)</u>	<u>\$ (686,047)</u>	<u>\$ 21,201</u>	<u>\$ 707,248</u>	<u>\$ (1,790,597)</u>	<u>\$ (1,790,597)</u>	<u>\$ 73,262</u>	<u>\$ 1,863,859</u>
Ending cash fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 707,248</u>	<u>\$ 707,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,863,859</u>	<u>\$ 1,863,859</u>

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

Lone Grove School District I-32  
Carter County, Oklahoma  
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund  
Balances – Budget and Actual  
Regulatory Basis – Budgeted Governmental Fund Types  
For the Year Ended June 30, 2015

	Debt Service Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning cash fund balances - Budgetary basis	\$ 41,044	\$ 41,044	\$ 899,279	\$ 858,235
Revenues collected:				
Local sources	<u>\$ 1,178,909</u>	<u>1,178,909</u>	<u>1,218,795</u>	<u>39,886</u>
Total Revenues Collected	<u>\$ 1,178,909</u>	<u>\$ 1,178,909</u>	<u>\$ 1,218,795</u>	<u>\$ 39,886</u>
Expenditures paid:				
Debt service:				
Principal payments	\$ 1,195,000	\$ 1,195,000	\$ 1,195,000	\$ -
Interest and fiscal agent fees	<u>24,953</u>	<u>24,953</u>	<u>24,953</u>	<u>-</u>
Total Expenditures paid	<u>\$ 1,219,953</u>	<u>\$ 1,219,953</u>	<u>\$ 1,219,953</u>	<u>\$ -</u>
Excess of revenues collected over (under) expenditures paid	<u>\$ (41,044)</u>	<u>\$ (41,044)</u>	<u>\$ (1,158)</u>	<u>\$ 39,886</u>
Ending cash fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 898,121</u>	<u>\$ 898,121</u>

Reconciliation between Budgetary Comparison Schedule  
and Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances.

Actual amounts "Total Expenditures Paid" from budgetary comparison Schedule:	1,219,953
Adjustments for Bond and Interest Accruals:	(19,003)
Adjustment for Commissions paid which are nonbudgetary items	<u>2,100</u>
Total Expenditures Paid as reported on the State of Revenues Collected, Expenditures Paid and Changes in Fund Balances	<u>1,203,050</u>
Actual amounts "Ending Cash Balances" from budgetary comparison Schedule:	898,121
Adjustments for Bond and Interest Accruals:	19,003
Adjustment for Commissions paid which are nonbudgetary items	<u>(2,100)</u>
Ending Cash Balances as reported on the State of Revenues Collected, Expenditures Paid and Changes in Fund Balances	<u>\$ 915,024</u>

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

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies**

The basic financial statements of the Lone Grove School District, I-32, Carter County, Oklahoma (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

**A. The 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 for support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

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.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies – (continued)**

**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 two categories: governmental 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 special revenue fund consists of the District's Building Fund, Child Nutrition Fund and Municipal Tax Levy. 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 Child Nutrition Fund derives monies from local sources for meals, reimbursements received from state and federal sources for free and reduced lunches and expenditures are related to the operations of the child nutrition program. The Municipal Tax Levy consists of monies derived from a special county sales tax collected on behalf of the school district for the purposes of technology equipment and instructional and classroom materials.

Debt Service Fund - The debt service fund consists of the District's Sinking Fund. The Sinking fund is used to account for the accumulation of financial resources for the payment of general long-term obligation debt. The primary revenue sources are local property taxes levied specifically for debt service.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies – (continued)**

**B. Fund Accounting – (continued)**

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

*Fiduciary Fund Types*

Agency Fund - The Agency fund is the School Activities fund which is used to account for monies collected principally through fundraising 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*

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. The District does not include a general fixed-assets account group.

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.

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 the fixed asset records necessary to account for this account group.

*Memorandum Only - Total Column*

The total column on the basic regulatory 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 and Presentation**

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

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies – (continued)**

**Basis of Accounting and Presentation – (continued)**

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:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

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.

*Estimates* - The preparation of financial statements in conformity with the regulatory basis of accounting requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

*Noncash Transactions* - The District received federal food commodities in the amount of \$31,487.

The District is required by state law to prepare an annual budget. No later than October 1, each board of education shall prepare a financial statement and estimate of needs to be filed with the applicable county clerk and the State Department of Education. Once the county excise board has approved the estimate of needs, the board shall adopt a final budget within 45 days or the second regularly scheduled board meeting. No later than 15 days prior to adoption of a final budget, the board must conduct a public hearing for the purposes of taking public comments. The final budget may be revised upon approval of the board of education in open meeting.

Under current Oklahoma Statutes a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories. Budgets generally assume the expenditure of all available resources. Therefore, when the legal budget is prepared, it is assumed these funds will not have a carryover balance to subsequent year.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies – (continued)**

**D. Assets Liabilities and Fund Equity**

*Investment* - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policies are governed by *Oklahoma Statutes*. 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, banks and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal depository insurance.

*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 is 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* - The value of consumable inventories at June 30, 2015, is not material to the financial statements.

*Compensated Absences* - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure of the governmental funds that will pay it. There are no amounts of vested or accumulated vacation leave.

*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.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**1. Summary of Significant Accounting Policies – (continued)**

**E. 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. Approximately 73% of the District's general fund revenue comes from state sources.

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 education 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 which are reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

**2. Cash**

*Custodial Credit Risk* - Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. As of June 30, 2015, cash deposits were fully insured or collateralized by a pledging bank's agent in the District's name.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**3. 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, and capital leases. Debt service requirements for bonds are payable solely from fund balance and 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:

	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Payable	\$ 2,045,000	\$ 1,045,000	\$ 1,175,000	\$ 1,915,000
Capital Lease Obligations	<u>3,892,918</u>	<u>1,655,000</u>	<u>1,032,215</u>	<u>4,515,703</u>
	<u>\$ 5,937,918</u>	<u>\$ 2,700,000</u>	<u>\$ 2,207,215</u>	<u>\$ 6,430,703</u>

***General Obligation Bonds***

A brief description of the outstanding general obligations bond issues at June 30, 2015, is set forth below:

	<b><i>Amount Outstanding</i></b>
Independent School District, I-32 School Building Series 2014-H, original issue \$1,045,000, interest rate 0.700% due with one installment of \$1,045,000, due 7/1/2016	\$ 1,045,000
Independent School District, I-32 School Building Bonds of 2010 (Series C), original issue \$850,000, interest rates from 1.7% to 2.75% due in annual installments of \$100,000 to \$250,000 with a final payment of \$250,000 due 3/1/2016	250,000
Independent School District, I-32 School Building Bonds of 2010 (Series D), original issue \$550,000, interest rates from 1.7% to 1.35% due in annual installments of \$150,000 to \$200,000 with a final payment of \$200,000 due 11/1/2015	200,000

Lone Grove School District I-32  
 Carter County, Oklahoma  
 Notes to Financial Statements  
 For the Year Ended June 30, 2015

**3. General Long Term Debt (continued)**

Independent School District, I-32 School Building Bonds of 2011 (Series E), original issue \$525,000, interest rates from 1.9% to 2.15% due in annual installments of \$125,000 to \$200,000 with a final payment of \$200,000 due 2/1/2016

200,000

Independent School District, I-32 School Building Bonds of 2013 (Series G), original issue \$220,000 interest rate of 0.70% due in with a final payment of \$220,00 due 7/1/2015

220,000

\$ 1,915,000

The annual debt service requirements for retirement of bond principal and payment of interest, is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 870,000	\$ 14,480	\$ 884,480
2017	<u>1,045,000</u>	<u>14,630</u>	<u>1,059,630</u>
Total	<u>\$ 1,915,000</u>	<u>\$ 29,110</u>	<u>\$ 1,944,110</u>

Interest expense on general long-term debt incurred during the current year totaled \$25,950.

Subsequent to year end the District issued \$1,080,000 of bonds, leaving a remaining balance of \$415,000 of bonds authorized but not issued.

***Capital Leases***

The District enters into lease agreements as lessee for financing the acquisition of equipment. For accounting purposes since the title transfers at the end of the lease term, it has been recorded at the present value of the future minimum lease payments. The leases contain a clause which provides the ability to terminate the agreement at the end of each fiscal year. The District has recorded the liability for future lease payments in the general long-term debt group.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**3. General Long-Term Debt (continued)**

The District has entered into various lease agreements under which the related equipment and buildings will become the property of the District when all terms of the lease agreements are met.

	Stated Interest <u>Rate</u>	Present Value of Remaining Lease Payments <u>June 30, 2015</u>
Land	4.600%	\$ 31,397
Busses	3.500%	188,558
Auditorium	1.850%	1,655,000
Gymnasium	1.960%	2,640,748
		\$ 4,515,703

Future minimum lease payments on these leases are as follows:

<u>Year Ended June 30,</u>	<u>Amount Due</u>
2016	\$ 734,269
2017	1,160,426
2018	1,194,874
2019	1,224,574
2020	440,550
	4,754,693
Less: Interest	(238,990)
Total	\$ 4,515,703

***Pledged Revenues***

Property Tax Revenues collected by the District are pledged to repay the District's General Obligation Bonds. As of June 30, 2015, 1,915,000 general obligations were outstanding and \$1,495,000 of general obligations bonds were authorized but not issued. Principal and interest paid for current year and revenues collected were \$1,200,950 and \$1,218,307, respectively.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**4. Employee Retirement System**

Teachers' Retirement System of Oklahoma

Plan Description – The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is the responsibility of the state legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the employees of the District. The System issues a publically available financial report that can be obtained at <http://www.ok.gov/trs/>.

*Benefits Provided* – The System provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O.S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. Benefit provisions include

- After five years of credited service, members become 100% vested in benefits earned to date.
- Members who joined the System prior to July 1, 1992 are eligible to retire at maximum benefits at the earlier of age 62 or when age and years of creditable service total 80. Members joining from July 1, 1992 to October 31, 2011 are eligible for maximum benefits at the earlier of age 62 or when their age and years of creditable service total 90. Members who joined the System on or after November 1, 2011 are eligible to retire with maximum benefits at the earlier of age 65 or when their age and years of creditable service total 90 as long as their age is at least 60.
- The maximum retirement benefit is 2% of final average compensation times the number of years of credited service. Reduced benefits are available at age 55 for members joining prior to November 1, 2011 or age 60 for members joining after October 31, 2011. Reduction factors vary depending on age and date of membership when joining the System.
- Final average compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for three highest year of contributing compensation. For members joining the System after June 30, 1992 final average compensation is defined as the average of the five highest consecutive years of contributing compensation. Prior to July 1, 1995 all contributions were limited to salary caps of \$40,000 or \$25,000 depending on the member's election. Salary caps were removed starting July 1, 1995.
- Upon death, the designated beneficiary of a member who has not retired shall receive total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. The surviving spouse may elect to receive the retirement benefit of the member, in lieu of the aforementioned benefits.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**4. Employee Retirement System (continued)**

- Upon death of a retired member, the System will pay \$5,000 to the designated beneficiary in addition to the benefits provided by the retirement option selected by the member.
- A member is eligible for disability benefits after 10 years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon withdrawal from the system, a member's contributions are refundable with interest, based on the years of service.

Contributions – In accordance with *Oklahoma Statutes*, System members are required to contribute 7.00% of applicable compensation. For the year ended June 30, 2015, qualifying employee contributions were reduced by a retirement credit of \$64,605 provided by Enrolled House Bill 1873 and paid by the State of Oklahoma as on-behalf payments. For the year ended June 30, 2015, the District had a statutory contribution rate of 9.5% plus 8.25% as a match for salaries funded by federal programs. The contribution requirements of System members and the District are established and may be amended by the state legislature. For the year ended June 30, 2015, the District contributions to the System for were \$601,417.

The State of Oklahoma, a non-employer contributing entity, provides funds through 5% of the State's sales, use, corporate and individual income taxes collected. The System receives 1% of the cigarette taxes collected by the State and 5% of net lottery proceeds collected by the State. The District's estimated share of these contributions based on their covered payroll for the measurement period was \$18,924.

Pension Liability and Pension Expense

At June 30, 2015, the District's proportionate share of the net pension liability was \$8,537,532. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of the contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.15869412%, which was the same as its proportion measured as of June 30, 2013.

For the year ended June 30 2015, the District had pension expense of \$499,921.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**4. Employee Retirement System (continued)**

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method – Entry Age Normal

Amortization Method – Level Percentage of Payroll

Amortization Period – Amortization over an open 30-year period

Asset Valuation Method – 5-year smooth market

Inflation – 3.00%

Salary Increases – Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.

Investment Rate of Return – 8.00%

Retirement Age – Experience-based table of rates based on age, service, and gender.

Mortality – RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expecting inflation.

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	23.50%	6.60%
Domestic Equity	57.50%	6.80%
Private Equity	5.00%	7.90%
Real Estate	7.00%	5.50%
Limited Partnerships	7.00%	7.90%
	<u>100.00%</u>	

Lone Grove School District I-32  
 Carter County, Oklahoma  
 Notes to Financial Statements  
 For the Year Ended June 30, 2015

**4. Employee Retirement System (continued)**

Discount rate – A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2013 and 2014. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's Proportionate share of the net pension liability	\$ 12,077,207	\$ 8,537,532	\$ 5,658,995

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued TRS financial report that can be obtained at <http://www.ok.gov/trs/>.

**5. Contingencies**

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.

The District is defendant in a lawsuit. Although the outcome of the lawsuit is not presently determinable, the District believes the resolution of the matters will not have a material adverse effect on the financial condition of the District. Should a judgment be awarded against the District, it would be levied through the District’s sinking fund over a three-year period pursuant to state law.

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to Financial Statements  
For the Year Ended June 30, 2015

**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 and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior year and settlements have not exceeded coverage in the past three years.

**7. Subsequent Event**

In bond election held February 9, 2016, voters in the District approved the bond issue of \$10,975,000. The bond issue will provide multi-functional safe room/classroom on elementary and secondary campuses, renovations at the intermediate school, upgrades to primary and middle school campuses, repair drainage issues at all campuses, upgrades of high school athletics facilities, upgrade restroom facilities for softball/baseball facilities and parking area around Gary Scott Center and new auditorium on high school campus.

Lone Grove School District I-32  
Carter County, Oklahoma  
Supplementary Schedule  
Combining Statement of Assets, Liabilities and Fund Equity – Regulatory Basis  
All Special Revenue Funds  
June 30, 2015

ASSETS	Building	Child Nutrition	Municipal Tax Levy	Total
Cash	\$ 1,872,402	\$ 21,576	\$ 354,357	\$ 2,248,335
Total Assets	<u>\$ 1,872,402</u>	<u>\$ 21,576</u>	<u>\$ 354,357</u>	<u>\$ 2,248,335</u>
 <b>LIABILITIES AND FUND EQUITY</b>				
Liabilities:				
Warrants payable	\$ 8,543	\$ 19,489	\$ 52,006	\$ 80,038
Total Liabilities	<u>8,543</u>	<u>19,489</u>	<u>52,006</u>	<u>80,038</u>
 Fund Equity:				
Undesignated	<u>1,863,859</u>	<u>2,087</u>	<u>302,351</u>	<u>2,168,297</u>
Total Cash Fund Balances	<u>1,863,859</u>	<u>2,087</u>	<u>302,351</u>	<u>2,168,297</u>
 Total Liabilities and Fund Equity	 <u>\$ 1,872,402</u>	 <u>\$ 21,576</u>	 <u>\$ 354,357</u>	 <u>\$ 2,248,335</u>

Lone Grove School District I-32  
Carter County, Oklahoma  
Supplementary Schedule  
Combining Statement of Revenues Collected, Expenditures Paid and  
Changes in Cash Fund Balances – Regulatory Basis  
All Special Revenue Funds  
For the Year Ended June 30, 2015

	Building	Child Nutrition	Municipal Tax Levy	Total
Revenues collected:				
Local sources	\$ 183,791	\$ 106,669	\$ 420,557	\$ 711,017
State sources	-	7,216	-	7,216
Federal sources	-	304,693	-	304,693
Total Revenues Collected	<u>\$ 183,791</u>	<u>\$ 418,578</u>	<u>\$ 420,557</u>	<u>\$ 1,022,926</u>
Expenditures paid:				
Instruction	\$ -	\$ -	\$ 250,571	\$ 250,571
Support services	75,744	-	-	75,744
Non-Instructional services	-	416,491	-	416,491
Capital outlay	34,785	-	-	34,785
Total expenditures paid	<u>\$ 110,529</u>	<u>\$ 416,491</u>	<u>\$ 250,571</u>	<u>\$ 777,591</u>
Excess of revenues collected over (under) expenditures paid	\$ 73,262	\$ 2,087	\$ 169,986	\$ 245,335
Excess of revenues collected and other sources over (under) expenditures paid and other uses	\$ 73,262	\$ 2,087	\$ 169,986	\$ 245,335
Cash fund balances, beginning of year	<u>1,790,597</u>	<u>-</u>	<u>132,365</u>	<u>1,922,962</u>
Cash fund balances, end of year	<u>\$ 1,863,859</u>	<u>\$ 2,087</u>	<u>\$ 302,351</u>	<u>\$ 2,168,297</u>

Lone Grove School District I-32  
Carter County, Oklahoma  
Supplemental Schedule Combining Schedule of Changes in Cash Balances  
Regulatory Basis- Activity Funds  
For the Year Ended June 30, 2015

	BEGINNING			ENDING
	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>CHECKS</u>	<u>BALANCE</u>
Athletics	\$ 7,408	\$ 118,552	\$ 111,142	\$ 14,818
Concessions	9,288	13,068	11,102	11,254
FFA	1,825	46,788	46,170	2,443
FHA	855	2,646	3,044	457
Music	1,814	7,247	8,684	377
Library	3,890	2,880	2,276	4,494
Boys Golf	267	1,931	563	1,635
Intermediate	21,817	34,346	31,151	25,012
High School	28,536	17,772	20,880	25,428
Junior High Cheerleaders	2,543	9,447	6,922	5,068
Art	62	8,566	8,341	287
Cheerleaders	6,363	13,092	15,245	4,210
Scholarship	6,700	2,500	3,500	5,700
Band	3,561	37,791	34,030	7,322
Intermediate Science	3,139	7,613	8,330	2,422
Clearing Account	-	13,990	13,990	-
HS Food Pantry	353	-	-	353
Key Club	68	1,262	989	341
Middle School	17,017	30,972	24,212	23,777
Speech	64	-	-	64
Student Council	1,246	5,390	5,531	1,105
Color Guard	242	1,460	865	837
Spanish	528	-	-	528
Interest	5,794	1,679	4,946	2,527
Miscellaneous	2	-	-	2
Elementary PE	1,411	5,749	5,838	1,322
MS Newspaper	333	582	802	113
Kindergarten Snack	472	5,816	5,725	563
4 Year Old	513	3,568	3,749	332
Disaster Relief	6,729	-	400	6,329
Lunch	-	106,262	106,262	-
Primary	24,278	43,580	47,871	19,987
4th Grade	81	460	334	207

Lone Grove School District I-32  
Carter County, Oklahoma  
Supplemental Schedule Combining Schedule of Changes in Cash Balances  
Regulatory Basis- Activity Funds  
For the Year Ended June 30, 2015

	<u>BEGINNING</u> <u>BALANCE</u>	<u>RECEIPTS</u>	<u>CHECKS</u>	<u>ENDING</u> <u>BALANCE</u>
Lone Grove Parents in Action	7,885	3,511	2,543	8,853
Middle School Builders Club	2,336	2,320	1,831	2,825
Jump-N-Jive	350	2,973	2,245	1,078
High School Yearbook	2,813	17,498	15,588	4,723
5th Grade	338	640	874	104
National Honor Society	331	4,712	4,338	705
First Grade	1,395	4,708	4,938	1,165
High School Academic Team	210	100	-	310
Middle School Academic Team	116	380	378	118
Childrens Honor Choir	3,309	5,225	2,918	5,616
Baseball Tournament	-	5,638	2,768	2,870
Primary Library	2,511	12,457	12,021	2,947
Baseball Concession	6,937	14,528	13,123	8,342
Softball Concession	6,796	24,879	18,382	13,293
Football	7,029	41,193	39,125	9,097
FCA	292	3,328	2,723	897
HS Girls Basketball	2,931	17,570	17,064	3,437
3rd Grade	1,489	1,125	415	2,199
MS Accelerated Reading	190	-	-	190
Extended Child Care	-	48,920	48,920	-
Second Grade Account	516	5,220	4,200	1,536
Papa's Academic Account	940	-	-	940
Longhorn Invitational Tournament	10,178	13,946	15,426	8,698
Lone Grove Golf Team	373	1,927	667	1,633
7th Grade	4,121	-	-	4,121
HS Boys Basketball	824	6,630	4,041	3,413
Insurance	1,816	55	55	1,816
Special Athletes	52	6,232	4,386	1,898
	<u>\$ 223,277</u>	<u>\$ 790,724</u>	<u>\$ 751,863</u>	<u>\$ 262,138</u>

Lone Grove School District I-32  
Carter County, Oklahoma  
Supplemental Schedule  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015

Federal Grant / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass - Through Grantor's Project Number	Balance 6/30/2014	Federal Grant Receipts	Federal Grant Expenditures	Balance 6/30/2015
<b>U.S. Dept. of Education</b>						
<i>Direct Grants</i>						
Title VIII - Impact Aid	84.041	591	\$ 5,972	\$ 6,887	\$ 6,887	\$ 5,972
Title VI - Part B Rural Education Initiative	84.358B	587	-	28,686	28,686	-
Indian Education Grants to Local Education Agencies	84.060	561	(187)	55,185	54,911	87
<i>Passed Through State Department of Education:</i>						
Special Education - Flow - Through	84.027	621	\$ (298,732)	\$ 298,732	\$ 266,617	\$ (266,617)
Special Education - Preschool	84.173	641	-	6,910	6,910	-
Special Education Cluster			<u>\$ (298,732)</u>	<u>\$ 305,642</u>	<u>\$ 273,527</u>	<u>\$ (266,617)</u>
Title I, Grants to Local Education Agencies	84.010	511	\$ (244,842)	\$ 244,342	\$ 283,800	\$ (284,300)
Rehabilitation Services - Vocation Rehabilitation Grants	84.126	456	\$ (1,142)	\$ 2,772	\$ 2,954	\$ (1,324)
Title II - Part A - Improving Teacher Quality	84.367	541	(14,144)	18,375	18,680	(14,449)
<i>Passed Through Vocational Education:</i>						
Career and Technical Education - Basic Grant to States (Perkins IV)	84.048	421	(9,052)	11,116	8,916	(6,852)
Total U.S. Department of Education			<u>\$ (562,127)</u>	<u>\$ 673,005</u>	<u>\$ 678,361</u>	<u>\$ (567,483)</u>
<b>U.S. Department of Interior:</b>						
<i>Passed Through Chickasaw Nation:</i>						
Indian Education Assistance to Schools	15.130	563	\$ (13,959)	\$ 23,620	\$ 13,583	\$ (3,922)
<b>U.S. Department of Agriculture:</b>						
<i>Passed Through State Department of Education:</i>						
National School Lunch Program	10.555	763	-	\$ 244,938	\$ 244,938	-
School Lunch Program - Commodities	10.555	763	-	31,487	31,487	-
School Breakfast Program	10.553	764	-	59,755	59,755	-
Child Nutrition Cluster			<u>\$ -</u>	<u>\$ 336,180</u>	<u>\$ 336,180</u>	<u>\$ -</u>
Total U.S. Department of Agriculture			<u>\$ -</u>	<u>\$ 336,180</u>	<u>\$ 336,180</u>	<u>\$ -</u>
Total Expenditures of Federal Awards			<u>\$ (576,086)</u>	<u>\$ 1,032,805</u>	<u>\$ 1,028,124</u>	<u>\$ (571,405)</u>

Lone Grove School District I-32  
Carter County, Oklahoma  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015

Note 1: Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Lone Grove School District I-32 Carter County, Oklahoma. The schedule is prepared using the cash receipts and disbursement basis. Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the basic financial statements. Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received. Expenditures include amounts claimed and indirect costs.



**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***

To the Board of Education  
Lone Grove School District I-32,  
Carter County Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller of the United States, the accompanying fund type and account group financial statements of Lone Grove School District I-32, Carter County Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Lone Grove School District I-32, Carter County Oklahoma's regulatory financial statements and have issued our report thereon dated February 29, 2016. Our report included an adverse opinion on U.S. Generally Accepted Accounting Principles and a qualified opinion due to the omission of the general fixed asset account group.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lone Grove School District I-32 Carter County, Oklahoma'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 effectiveness Lone Grove School District I-32 Carter County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Lone Grove School District I-32 Carter County, Oklahoma's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph 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 findings and questions costs, 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 findings and questioned costs to be a material weakness. 2015-002.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2015-001.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Lone Grove School District I-32, Carter County Oklahoma's financial statements are free of material misstatement, we 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 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 findings and questioned costs as items 2015-003 and 2015-004.

### **Lone Grove School District I-32, Carter County Oklahoma's Response to Findings**

Lone Grove School District I-32, Carter County Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lone Grove School District I-32, Carter County Oklahoma'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.

*Rahhal Henderson Johnson, PLLC*

Ardmore, Oklahoma  
February 29, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Lone Grove School District I-32,  
Carter County Oklahoma

**Report on Compliance for Each Major Federal Program**

We have audited Lone Grove School District I-32, Carter County, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lone Grove School District I-32, Carter County, Oklahoma's major federal programs for the year ended June 30, 2015. Lone Grove School District I-32, Carter County, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Lone Grove School District I-32, Carter County, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lone Grove School District I-32, Carter County, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lone Grove School District I-32, Carter County, Oklahoma's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Lone Grove School District I-32, Carter County, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### **Report on Internal Control Over Compliance**

Management of Lone Grove School District I-32, Carter County, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lone Grove School District I-32, Carter County, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lone Grove School District I-32, Carter County, Oklahoma's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rahhal Henderson Johnson, PLLC*

Ardmore, Oklahoma  
February 29, 2016

Lone Grove School District I-32  
 Carter County, Oklahoma  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

***Section I – Summary of Auditor’s Results***

**Financial Statements:**

Type of audit report: Qualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?   X   Yes        No

Significant Deficiency(ies) identified that are not considered to be material weaknesses?   X   Yes        No

Noncompliance material to financial statement   X   Yes        No

**Federal Awards:**

Internal control over major program:

Material weakness(es) identified?        Yes   X   No

Significant Deficiency(ies) identified that are not considered to be material weaknesses?        Yes   X   No

Type of auditor's report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular        Yes   X   No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of federal Program or Cluster</u>
10.553; 10.555	Child Nutrition Cluster
84.010	Title I, Part A

Dollar threshold used to distinguish between Type A \$ 300,000

Auditee qualified as a low-risk auditee?        Yes   X   No

Lone Grove School District I-32  
Carter County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

***Section II – Financial Statement Findings***

**2015-001 Financial Reporting**

*Condition:* The District does not have a financial reporting system in place to ensure that all financial information is disclosed in the appropriate accounting period and in accordance with the regulatory basis of accounting and State Department of Education guidelines. In addition, the District does not report a general fixed asset account group as required by the State Department of Education guidelines.

*Criteria:* The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. An individual with sufficient awareness of disclosure requirements should be designated to oversee the preparation of the financial statements.

*Cause:* The internal control structure of the District focuses primarily on daily operations. The District does have a system of financial reporting that determines the trial balances used in financial statement preparation are final. The District does not currently have a system in place to determine appropriate financial statement disclosures. The District also does not have a system for accounting for general fixed assets.

*Effect:* Potential that financial statement disclosures will be incomplete. Scope limitation on the audit for the general fixed asset account group.

*Recommendation:* We recommend that the District evaluate the costs of providing for the additional assistance needed for the year-end financial reporting process to determine it is in accordance with accounting and regulatory requirements.

*Views of Responsible Officials  
and Planned Corrective*

*Action:* The District's current budget constraints do not allow for the addition of an outside consultant to assist in the year-end financial reporting process. Management reviews disclosures as presented to determine that they are accurate.

Lone Grove School District I-32  
Carter County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

**2015-002 Unrecorded Deposits and Checks**

*Condition:* Unrecorded deposits and checks that had cleared the bank.

*Criteria:* Internal control procedures should include a bank reconciliation that reconciles bank statement activities to amounts recorded in the accounting system. This is especially important since a pooled cash account is used.

*Cause:* Failure to reconcile bank statement activity to the accounting system.

*Context:* During testing of cash it was determined checks paid per bank statements and payment clearing registers were not being reconciled, which resulted in a net adjustment of approximately \$64,600 which included reconciling items from FY14 and FY15. It was also determined activity related to the bond funds of receipt of funds and expenditures are not being captured timely.

*Effect:* Risk of misappropriation of assets

*Recommendation:* We recommend that the bank statements should be reconciled monthly to the accounting system. Procedures also need to be implemented to reconcile individual fund cash balances to overall pooled cash balance.

*Views of Responsible Officials  
and Planned Corrective*

*Action:* District is working towards preparing more timely receipt analysis from the accounting system to reconcile with monthly treasurer reports, as well as reconciling the bank statements to the accounting system.

**2015-003 Activity Fund Receipts**

*Condition:* Funds are not being remitted to the financial secretary timely to allow the funds to be deposited within one business day of receipt. Supporting documentation of teacher/sponsor receipts is not being completed.

*Criteria:* Oklahoma Statutes 70-5.129 requires receipts equal or exceeding \$100 to be deposited by the following business day or weekly if less than \$100. District policy issues pre-numbered receipts books to teacher/sponsor to issue when collecting activity funds.

*Cause:* Failure to follow regulations

*Context:* Two out of twenty five receipts tested were not deposited within one business day based on date received by sponsor and therefore

Lone Grove School District I-32  
Carter County, Oklahoma  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

were not deposited timely. In addition 8 out 25 receipts tested did not have sufficient documentation for the amount of funds initially collected from students.

*Effect:* Out of compliance with state law, and risk of misappropriation of assets.

*Recommendation:* We recommend that deposits be made timely, and that procedures be strengthened to include that receipts, lists or inventory reconciliation of items sold should be completed for all activity fund activities.

*Views of Responsible Officials  
and Planned Corrective*

*Action:* The District will continue to focus on improving compliance in this area.

**2015-004 Child Nutrition 3-Month Carryover Balance**

*Condition:* District has exceeded their three month carryover balance allowed in the Child Nutrition Program.

*Criteria:* USDA Regulation (7CFR§210.14[b]) requires a school food service authority to limit its net resources to an amount that does not exceed three month average expenditures for its nonprofit school service fund.

*Cause:* Failure to monitor the child nutrition carryover.

*Context:* During testing of the Child Nutrition three month carryover balance it was determined that the district exceeds the limit.

*Effect:* Out of compliance with USDA regulation

*Recommendation:* We recommend that District implement procedure to ensure they maintain a carryover balance which is under the limit.

*Views of Responsible Officials  
and Planned Corrective*

*Action:* District started using the Child Nutrition Fund 22 in fiscal year 2015, but did identify the ending balance of the child nutrition program in the general fund from fiscal year 2014. District will implement procedures to ensure carryover balances are properly tracked and evaluated to ensure compliance. District will consult with the child nutrition director and determine the needs of the program and will use the excess carryover balance during fiscal year 2016.

***Section III – Federal Award Findings and Questioned Costs***

None noted

Lone Grove School District I-32  
Carter County, Oklahoma  
Summary of Prior Year Findings  
For the Year Ended June 30, 2015

**Findings relating to the Financial Statements**

2014-001      *Condition:*      The District does not have a financial reporting system in place to ensure that all financial information is disclosed in the appropriate accounting period and in accordance with the regulatory basis of accounting and State Department of Education guidelines. In addition, the District does not report a general fixed asset account group as required by the State Department of Education guidelines.

*Recommendation:*      The Auditor recommended that the District evaluate the costs of providing for the additional assistance needed for the year-end financial reporting process to determine it is in accordance with accounting and regulatory requirements.

*Current Status:*      Condition still exists see current year finding 2015-001.

2014-002      *Condition:*      Unrecorded deposits and checks that had cleared the bank.

*Recommendation:*      The Auditor recommended that the bank statements should be reconciled monthly to the accounting system. Procedures also need to be implemented to reconcile individual fund cash balances to overall pooled cash balances.

*Current Status:*      Condition still exists see current year finding 2015-002.

**Findings relating to Federal Awards**

None

Lone Grove School District I-32  
Carter County, Oklahoma  
Statement of Statutory Fidelity, and Honesty Bonds (unaudited)  
For the Year Ended June 30, 2015

The superintendent is bonded by Old Republic Surety Company surety bond number is W150026601 with a coverage of \$100,000 and is for the term July 1, 2014 to July 1, 2015.

The treasurer is bonded by Western Surety Company, bond number 01708762, for the penal sum of \$50,000 for the term July 14, 2014 to July 14, 2015.

The activity fund custodian is bonded by Western Surety Company, bond number 14328792, for the penal sum of \$1,000 for the term June 10, 2014 to June 10, 2015, which was renewed to June 10, 2015 to June 10, 2016.

The minutes clerk is bonded by Western Surety Company, bond number 14328793, for the penal sum of \$1,000 for the term July 1, 2014 to July 1, 2015.

The encumbrance clerks are bonded by Western Surety Company, bond number 18209318 and 14328791, for the penal sum of \$1,000 for the term July 5, 2014 to July 5, 2015 and July 18, 2014 to July 18, 2015, respectively.

Lone Grove School District I-32  
Carter County, Oklahoma  
Schedule of Accountant's Professional Liability Insurance Affidavit (unaudited)  
For the Year Ended June 30, 2015

State of Oklahoma )

County of Carter )

The undersigned auditing firm of lawful age, 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 Lone Grove School District I-32 for the audit year 2014-2015.

RAHHAL HENDERSON JOHNSON, PLLC

BY: Mary E. Johnson  
Authorized Agent

Subscribed and sworn to before me on this 2nd day of March, 2016.

Brenda Richardson  
Notary Public

Commission Number: \_\_\_\_\_

My commission expires on \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

