

MARLOW INDEPENDENT SCHOOL DISTRICT NO. 3
STEPHENS COUNTY, OKLAHOMA
JUNE 30, 2015

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STEPHENS COUNTY, OKLAHOMA
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Schedule of Accountants' Professional Liability Insurance

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* The required internal control, compliance, and schedule of findings and questioned costs are required by Government Auditing Standards and OMB Circular A-133 when a single audit is applicable

**MARLOW INDEPENDENT SCHOOL DISTRICT NO. 1-3, STEPHENS COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015**

BOARD OF EDUCATION

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Vice President	Mark O'Neal
Clerk	Darren Alaniz
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Linda Chaffin

SCHOOL DISTRICT TREASURER

D.B. Green

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Marlow Independent School District #3
Stephens County, Oklahoma

Board Members:

Report on Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the **Marlow Independent School District #3**, Stephens 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 for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Oklahoma State Department of Education. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

As discussed in Note 1, the financial statements are prepared by **Marlow Independent School District #3** Stephens County, Oklahoma, 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 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 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 **Marlow Independent School District #3**, Stephens County, Oklahoma, as of June 30, 2015, or the changes in its financial position, for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and fund balance arising from regulatory basis transactions of each fund type and account group of **Marlow Independent School District, #3**, Stephens County, Oklahoma as of June 30, 2015, and the revenues collected, expenditures paid/expenses, and budgetary results, for the year ended on the regulatory 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 the **Marlow Independent School District #3, Stephens County, Oklahoma’s** basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education* and/or the 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 financial statements-regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements 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 on the regulatory basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of the **Marlow Independent School District, #3, Stephens County, Oklahoma's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering **Marlow Independent School District, #3, Stephens County, Oklahoma's** internal control over financial reporting and compliance.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
November 9, 2015

COMBINED FINANCIAL STATEMENTS

Marlow School District No.1-003, Stephens County, Oklahoma
Combined Statement of Assets, Liabilities and Fund Balances
Regulatory Basis - All Fund Types and Account Groups
June 30, 2015

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt	June 30, 2015
ASSETS							
Cash and Cash Equivalents	\$ 2,066,221	\$ 353,426	\$ 28,640	\$ 1	\$ 287,982	\$ 0	\$ 2,736,270
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	28,640	28,640
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	886,360	886,360
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	11,462,427	11,462,427
Total Assets	\$ 2,066,221	\$ 353,426	\$ 28,640	\$ 1	\$ 287,982	\$ 12,377,427	\$ 15,113,697
LIABILITIES AND FUND BALANCES							
Liabilities:							
Warrants Payable	\$ 697,295	\$ 94,669	\$ 0	\$ 0	\$ 0	\$ 0	\$ 791,964
Reserve for Encumbrances	0	0	0	0	0	0	0
Due to Activity Groups	0	0	0	0	287,982	0	287,982
General Obligation Bonds Payable	0	0	0	0	0	915,000	915,000
Capitalized Lease Obligations Payable	0	0	0	0	0	11,462,427	11,462,427
Total Liabilities	\$ 697,295	\$ 94,669	\$ 0	\$ 0	\$ 287,982	\$ 12,377,427	\$ 13,457,373
Fund Balances:							
Restricted For:							
Debt Service	\$ 0	\$ 0	\$ 28,640	\$ 0	\$ 0	\$ 0	\$ 28,640
Capital Projects	0	0	0	1	0	0	1
Building Programs	0	69,004	0	0	0	0	69,004
Child Nutrition Programs	0	129,494	0	0	0	0	129,494
Cooperative Programs	0	60,258	0	0	0	0	60,258
Unassigned	1,368,927	0	0	0	0	0	1,368,927
Total Fund Balances	\$ 1,368,927	\$ 258,756	\$ 28,640	\$ 1	\$ 0	\$ 0	\$ 1,656,324
Total Liabilities and Fund Balances	\$ 2,066,221	\$ 353,426	\$ 28,640	\$ 1	\$ 287,982	\$ 12,377,427	\$ 15,113,697

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

Marlow School District No.1-003, Stephens County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ended June 30, 2015

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2015
Revenue Collected:					
Local Sources	\$ 1,624,816	\$ 302,732	\$ 936,373	\$ 1,500	\$ 2,865,420
Intermediate Sources	270,042	0	0	0	270,042
State Sources	6,403,241	98,026	6	0	6,501,273
Federal Sources	310,510	855,444	0	0	1,165,954
Non-Revenue Receipts	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 8,608,609</u>	<u>\$ 1,256,202</u>	<u>\$ 936,379</u>	<u>\$ 1,500</u>	<u>\$ 10,802,690</u>
Expenditures Paid:					
Instruction	\$ 5,368,402	\$ 219,600	\$ 0	\$ 1,111,045	\$ 6,699,047
Support Services	3,003,012	576,605	0	0	3,579,617
Operation of Non-Instructional Services	0	498,695	0	0	498,695
Facilities Acquisition and Construction	16,941	0	0	0	16,941
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	900,000	0	900,000
Interest and Fiscal Agent Fees	0	0	9,900	0	9,900
<i>Total Expenditures Paid</i>	<u>\$ 8,388,355</u>	<u>\$ 1,294,900</u>	<u>\$ 909,900</u>	<u>\$ 1,111,045</u>	<u>\$ 11,704,200</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 220,254</u>	<u>\$ (38,698)</u>	<u>\$ 26,479</u>	<u>\$ (1,109,545)</u>	<u>\$ (901,510)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):					
Estopped Warrants	\$ (0)	\$ 0	\$ 0	\$ 0	\$ (0)
Bond Proceeds	0	0	0	915,000	915,000
Transfers In	17,113	0	0	0	17,113
Transfers Out	(200)	0	0	0	(200)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 16,913</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 915,000</u>	<u>\$ 931,913</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 237,167</u>	<u>\$ (38,698)</u>	<u>\$ 26,479</u>	<u>\$ (194,545)</u>	<u>\$ 30,403</u>
<i>Fund Balance - Beginning of Year</i>	<u>1,131,760</u>	<u>297,454</u>	<u>2,161</u>	<u>194,546</u>	<u>1,625,921</u>
<i>Fund Balance - End of Year</i>	<u>\$ 1,368,927</u>	<u>\$ 258,756</u>	<u>\$ 28,640</u>	<u>\$ 1</u>	<u>\$ 1,656,324</u>

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

Marlow School District No.1-003, Stephens County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types
For the Year Ended June 30, 2015

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 1,373,512	\$ 1,373,512	\$ 1,624,816	\$ 270,516	\$ 270,516	\$ 302,732	\$ 907,739	\$ 907,739	\$ 936,379
Intermediate Sources	230,300	263,015	270,042	0	0	0	0	0	0
State Sources	5,310,971	5,643,152	6,403,241	115,200	115,200	98,026	0	0	0
Federal Sources	0	0	310,510	781,000	781,000	855,444	0	0	0
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 6,914,783</u>	<u>\$ 7,279,679</u>	<u>\$ 8,608,609</u>	<u>\$ 1,166,716</u>	<u>\$ 1,166,716</u>	<u>\$ 1,256,202</u>	<u>\$ 907,739</u>	<u>\$ 907,739</u>	<u>\$ 936,379</u>
Expenditures Paid:									
Instruction	\$ 7,380,572	\$ 7,744,808	\$ 5,368,402	\$ 628,833	\$ 628,833	\$ 219,600	\$ 0	\$ 0	\$ 0
Support Services	665,971	666,631	3,003,012	264,967	264,967	576,605	0	0	0
Operation of Non-Instructional Services	0	0	0	570,370	570,370	498,695	0	0	0
Facilities Acquisition and Construction	0	0	16,941	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	909,900	909,900	909,900
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 8,046,543</u>	<u>\$ 8,411,439</u>	<u>\$ 8,388,355</u>	<u>\$ 1,464,170</u>	<u>\$ 1,464,170</u>	<u>\$ 1,294,900</u>	<u>\$ 909,900</u>	<u>\$ 909,900</u>	<u>\$ 909,900</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (1,131,760)</u>	<u>\$ (1,131,760)</u>	<u>\$ 220,254</u>	<u>\$ (297,454)</u>	<u>\$ (297,454)</u>	<u>\$ (38,698)</u>	<u>\$ (2,161)</u>	<u>\$ (2,161)</u>	<u>\$ 26,479</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ (0)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	17,113	0	0	0	0	0	0
Transfers Out	0	0	(200)	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 16,913</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (1,131,760)</u>	<u>\$ (1,131,760)</u>	<u>\$ 237,167</u>	<u>\$ (297,454)</u>	<u>\$ (297,454)</u>	<u>\$ (38,698)</u>	<u>\$ (2,161)</u>	<u>\$ (2,161)</u>	<u>\$ 26,479</u>
<i>Fund Balance - Beginning of Year</i>	<u>1,131,760</u>	<u>1,131,760</u>	<u>1,131,760</u>	<u>297,454</u>	<u>297,454</u>	<u>297,454</u>	<u>2,161</u>	<u>2,161</u>	<u>2,161</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ 0</u>	<u>\$ 1,368,927</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 258,756</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,640</u>

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

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Marlow Public Schools Independent District No. 3, Stephens County, Oklahoma (the "District") have been prepared in conformity with an other 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.

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

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

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

1.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."

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, Governmental Fund Types, (continued)

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).

1. General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenues 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.

2. Special Revenue Funds - The Special Revenue Funds of the District consist of the Building Fund, Child Nutrition Fund, and Cooperative Fund.

Building Fund - The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

Child Nutrition Fund - The Child Nutrition Fund consists of monies collected from meals served to students and employees of the district and is expended on food, supplies and salaries to operate the lunchroom. The district also deposits reimbursements received from the National School Lunch and Breakfast programs into this fund.

Cooperative Fund - The Cooperative Fund is a cooperative program that provides education services to the mentally and physically handicapped children of the surrounding schools that participate in the Cooperative. Marlow School acts as the LEA and accounts for the revenues and expenditures of the program.

3. Debt Service Fund - The debt service fund is the District's Sinking Fund and is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

4. Capital Projects Fund - The capital projects fund consists of the District's 2012 building bond issue. These funds are used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, (continued)

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, trust funds are used for their accounting and reporting. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

1. Agency Funds - 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.

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

2. General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the District. The District does not have the information necessary to include this group in its combined financial statements.

Memorandum Only - Total Column

The total column on the general purpose 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.

1.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 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

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

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.C. Basis of Accounting and Presentation, (continued)

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- 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; and, when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

1.D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. The board of education requests an initial temporary appropriations budget from the county excise board before June 30. Then no later than October 1, the board of education prepares financial statement and estimate of needs and files it with the applicable county clerk and the State Department of Education. The final budget may be revised upon approval of the board of education and the county excise board.

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.

1.E. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments - Investments consist of direct obligations of the United States government and agencies with maturities greater than three months when purchased. All investments are records at cost, which approximated market value.

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

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.E. Assets, Liabilities and Fund Equity, (continued)

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 basic financial statements.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group has not been presented.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Vested accumulated rights to receive sick pay benefits have not been reported in the general long-term debt account group since the amount is not material to the financial statements.

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. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance - In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund) and those that are spendable (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.E. Assets, Liabilities and Fund Equity, (continued)

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the District's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the School considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts

1.F. Revenue, Expenses, and Expenditures

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

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

The District receives revenue from the state to administer certain categorical education programs. The State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided. These rules also 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.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies, (continued)

1.F. Revenue, Expenses, and Expenditures, (continued)

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. Transfers in/transfers out may not agree because activity fund transactions are not included.

Note 2 – Deposit and Investment Risk

The District held the following deposits and investments at June 30, 2015:

		<u>Carrying Value</u>	
Deposits			
Demand Deposits	\$	2,741,965	
Time Deposits		<u>0</u>	
Total Deposits	\$	<u><u>2,741,965</u></u>	
Investments			
	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
			\$ <u>0</u>
Total Investments			\$ <u><u>0</u></u>
Reconciliation to the Combined Statement of Assets, Liabilities and Equity			
Cash and Cash Equivalents		\$	2,736,270
Activity Fund Outstanding Checks/deposits in transit			<u>5,695</u>
Total Deposits and Investments		\$	<u><u>2,741,965</u></u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

The District’s policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct debt obligations of the state, municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2015, the District was not exposed to custodial credit risk as defined above.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 2 – Deposit and Investment Risk, (continued)

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies..
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchase agreements that have underlying collateral including obligations of the United States government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school district debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments consist of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school district.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investment by reporting the credit quality ratings of investment in debt securities as determined by nationally recognized statistical rating organizations-rating agencies-as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The district had no investment credit risk as of June 30, 2015, as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District had no investment interest rate risk as defined above.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District places no limit on the amount it may invest in any one issuer.

At June 30, 2015, the District had no concentration of credit risk as defined above.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 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.

General long-term debt of the District consists of bonds payable and capital leases.

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

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2014	\$ 900,000	\$ 12,591,634	\$ 0	\$ 13,491,634
Additions	915,000	393,495	0	1,308,495
Retirements	900,000	1,522,702	0	2,422,702
Balance, June 30, 2015	<u>\$ 915,000</u>	<u>\$ 11,462,427</u>	<u>\$ 0</u>	<u>\$ 12,377,427</u>

Interest expense on bonds payable incurred during the current year totaled \$9,900.

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

	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding
2014 Building Bonds	0.55%	July 1, 2016	\$ 915,000	\$ 915,000

Presented below is a summary of debt service requirements to maturity by years and by each bond issue:

	Principal	Interest	Total
2014 Building Bonds			
2015-16	\$ 0	\$ 5,490	\$ 5,490
2016-17	915,000	5,490	920,490
Total Bonds	<u>\$ 915,000</u>	<u>\$ 10,980</u>	<u>\$ 925,980</u>

District has entered into various lease agreements as lessee for financing the acquisition of land, vehicles, roofs, buses and copiers. These lease agreements qualify as a capital leases for accounting purposes since title transfers at the end of the lease terms and they have been recorded at the present value of the future minimum lease payments. These leases contain a clause which gives the District the ability to terminate the lease agreements at the end of each fiscal year. The roof, scoreboard, and land were paid off during the 2014-15 year.

As noted in Note 1 to the financial statements, the District does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the above assets as assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the general long-term debt account group for the above lease.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 3 - General Long-term Debt, (continued)

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	New		Stephens Co.		Total
	Copiers	Buses	Educational Authority	Legion Ballpark	
2016	19,200	0	920,400	4,800	944,400
2017	19,200	0	940,200	0	959,400
2018	16,000		955,050	0	971,050
2019	0	90,628	974,850	0	1,065,478
2020	0	91,407	994,650	0	1,086,057
2021	0	0	1,014,450	0	1,014,450
2022	0	0	1,078,800	0	1,078,800
2023	0	0	1,103,550	0	1,103,550
2024	0	0	1,123,350	0	1,123,350
2025	0	0	2,182,650	0	2,182,650
Total	54,400	182,035	11,287,950	4,800	11,529,185
Less Amount Representing Interest	-3,218	-63,540	0	0	0
Present Value of Future Minimum Lease Pmts	51,182	118,495	11,287,950	4,800	11,462,427

Note 4 - Employee Retirement System

Plan Description - The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System") which is a cost-sharing multiple-employer defined benefit Public Employee Retirement System (PERS). The administration, benefits, and funding of the System are governed by Article XVII, Section 70 of the Oklahoma Statutes. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. PERS provides retirement, disability and death benefits to plan members and beneficiaries. The district has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

The System issues a publicly available financial report that includes financial statements and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Ok 73152 or by calling (405) 521-2387.

Funding Policy - Under the System, contributions are made by the District, the State of Oklahoma, and the participating employees. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public education institutions who work at least 20 hours per week.

The contribution rates for the District and its employees, which are not actuarially determined, are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50% of applicable compensation for the year ended June 30, 2015. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 4 - Employee Retirement System, (continued)

The District's contributions to the System for the years ending June 30, 2015, 2014, and 2013 were \$536,493, \$506,159, and \$512,161, respectively.

The compensation for employees covered by the System for the year ended June 30, 2015 was \$5,468,691; the District's total compensation was \$6,734,219. In addition to the District's 9.50% contributions, the District was required to pay into the System 8.25% of compensation arising from federal grants \$50,743. There were \$288,943 contributions made by employees during the year ended June 30, 2015.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The nonfunded pension benefit obligation of the System as determined as part of the latest actuarial valuation dated June 30, 2014, is as follows:

Total pension obligation	\$ 19,575,551,730
Net assets available for benefits, at cost	<u>12,368,960,848</u>
Nonfunded pension benefit obligation	<u>\$ 7,206,590,882</u>

The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2014. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they come due.

Note 5 - Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agency. 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.

Note 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. The District had the following insurance coverage during the year: Commercial property - \$30,692,401; general liability and educator liability- \$1,000,000,. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 6 – Risk Management, (continued)

The School also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the school reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to them during the plan year. As a member of OSAG the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the schools losses for the last five year. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use their loss fund in three years it is returned to them with no interest.

Note 7 - Use of Estimates

The preparation of financial statements in conformity with the cash basis and budget laws of the Oklahoma State Department of Education requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 8 – Budget Amendments

The General Fund Budget was amended twice during the year by filing supplemental appropriations forms with the county clerk's office. The supplemental appropriations were filed June 1, 2015 for \$108,807 and November 3, 2014 for \$256,090. This increased the original General Fund Budget from \$8,046,543 to 8,411,440.

Note 9 – Surety Bonds

The treasurer is bonded by Western Surety Company bond number 18260952 for the penal sum of \$100,000 for the period March 1, 2015 to March 1, 2016.

The minute's clerk is bonded by Western Surety Company bond number 14169760 for the penal sum of \$1,000 for the period August 7, 2014 to August 7, 2015 and bond number 14327560 for the penal sum of \$1,000 for the period June 25, 2014 to June 25, 2015.

The Director of Child Nutrition is bonded by Western Surety Company bond number 15421567 for the penal sum of \$1,000 for the period July 1, 2014 to July 1, 2015.

The activity fund custodian is bonded with Western Surety Company bond number 13368002 for the penal sum of \$1,000 for the period October 4, 2014 to October 4, 2015 and bond number 15421536 for the penal sum of \$5,000 for the period July 1, 2014 to July 1, 2015.

The Encumbrance Clerk is bonded with Western Surety Company bond number 24848043 for the penal sum of \$5,000 for the period November 10, 2014 to November 10, 2015 and bond number 62008716 for the penal sum of \$5,000 for the period April 22, 2015 to April 22, 2016.

Marlow ISD No. 3, Stephens County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 9 – Surety Bonds, (continued)

The Superintendent is bonded with Western Surety Company bond number 24852892 for the penal sum of \$100,000 for the period November 19, 2014 to November 19, 2015.

Note10 – Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

OTHER SUPPLEMENTAL INFORMATION

Marlow School District No.1-003, Stephens County, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balances
Regulatory Basis - All Special Revenue Funds
June 30, 2015

<u>ASSETS</u>	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Coop Fund</u>	<u>Total June 30, 2015</u>
Cash and Cash Equivalents	\$ 77,645	\$ 152,510	\$ 123,270	\$ 353,426
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 77,645</u>	<u>\$ 152,510</u>	<u>\$ 123,270</u>	<u>\$ 353,426</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Warrants Payable	\$ 8,641	\$ 23,016	\$ 63,012	\$ 94,669
Reserve for Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u>\$ 8,641</u>	<u>\$ 23,016</u>	<u>\$ 63,012</u>	<u>\$ 94,669</u>
Fund Balances:				
Restricted	<u>\$ 69,004</u>	<u>\$ 129,494</u>	<u>\$ 60,258</u>	<u>\$ 258,756</u>
<i>Total Fund Balances</i>	<u>\$ 69,004</u>	<u>\$ 129,494</u>	<u>\$ 60,258</u>	<u>\$ 258,756</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 77,645</u>	<u>\$ 152,510</u>	<u>\$ 123,270</u>	<u>\$ 353,426</u>

Marlow School District No.1-003, Stephens County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - Special Revenue Funds
For the Year Ended June 30, 2015

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Cooperative Fund</u>	<u>Total June 30, 2015</u>
Revenue Collected:				
Local Sources	\$ 214,049	\$ 80,711	\$ 7,972	\$ 302,732
Intermediate Sources	0	0	0	0
State Sources	0	49,402	48,624	98,026
Federal Sources	0	328,207	527,238	855,444
Non-Revenue Receipts	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 214,049</u>	<u>\$ 458,320</u>	<u>\$ 583,833</u>	<u>\$ 1,256,202</u>
Expenditures Paid:				
Instruction	\$ 0	\$ 0	\$ 219,600	\$ 219,600
Support Services	203,796	0	372,809	576,605
Operation of Non-Instructional Services	0	498,695	0	498,695
Facilities Acquisition and Construction	0	0	0	0
Other Outlays	0	0	0	0
Other Uses	0	0	0	0
Repayments	0	0	0	0
Interest Paid and Bank Charges	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 203,796</u>	<u>\$ 498,695</u>	<u>\$ 592,409</u>	<u>\$ 1,294,900</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 10,253</u>	<u>\$ (40,375)</u>	<u>\$ (8,575)</u>	<u>\$ (38,698)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):				
Estopped Warrants	\$ (0)	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (0)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 10,253</u>	<u>\$ (40,375)</u>	<u>\$ (8,575)</u>	<u>\$ (38,698)</u>
<i>Fund Balance - Beginning of Year</i>	<u>58,751</u>	<u>169,870</u>	<u>68,833</u>	<u>297,454</u>
<i>Fund Balance - End of Year</i>	<u><u>\$ 69,004</u></u>	<u><u>\$ 129,494</u></u>	<u><u>\$ 60,258</u></u>	<u><u>\$ 258,756</u></u>

Marlow School District No.1-003, Stephens County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Special Revenue Funds
For the Year Ended June 30, 2015

	Building Fund			Cooperative Fund			Child Nutrition Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 196,216	\$ 196,216	\$ 214,049	\$ 0	\$ 0	\$ 7,972	\$ 74,300	\$ 74,300	\$ 80,711
Intermediate Sources	0	0	0	0	0	0	0	0	0
State Sources	0	0	0	63,000	63,000	48,624	52,200	52,200	49,402
Federal Sources	0	0	0	507,000	507,000	527,238	274,000	274,000	328,207
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 196,216</u>	<u>\$ 196,216</u>	<u>\$ 214,049</u>	<u>\$ 570,000</u>	<u>\$ 570,000</u>	<u>\$ 583,833</u>	<u>\$ 400,500</u>	<u>\$ 400,500</u>	<u>\$ 458,320</u>
Expenditures Paid:									
Instruction	\$ 0	\$ 0	\$ 0	\$ 628,833	\$ 628,833	\$ 219,600	\$ 0	\$ 0	\$ 0
Support Services	254,967	254,967	203,796	10,000	10,000	372,809	0	0	0
Operation of Non-Instructional Services	0	0	0	0	0	0	570,370	570,370	498,695
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	0	0	0
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 254,967</u>	<u>\$ 254,967</u>	<u>\$ 203,796</u>	<u>\$ 638,833</u>	<u>\$ 638,833</u>	<u>\$ 592,409</u>	<u>\$ 570,370</u>	<u>\$ 570,370</u>	<u>\$ 498,695</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (58,751)</u>	<u>\$ (58,751)</u>	<u>\$ 10,253</u>	<u>\$ (68,833)</u>	<u>\$ (68,833)</u>	<u>\$ (8,575)</u>	<u>\$ (169,870)</u>	<u>\$ (169,870)</u>	<u>\$ (40,375)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ (0)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0	0	0	0
Transfers Out	0	0	0	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (58,751)</u>	<u>\$ (58,751)</u>	<u>\$ 10,253</u>	<u>\$ (68,833)</u>	<u>\$ (68,833)</u>	<u>\$ (8,575)</u>	<u>\$ (169,870)</u>	<u>\$ (169,870)</u>	<u>\$ (40,375)</u>
<i>Fund Balance - Beginning of Year</i>	<u>58,751</u>	<u>58,751</u>	<u>58,751</u>	<u>68,833</u>	<u>68,833</u>	<u>68,833</u>	<u>169,870</u>	<u>169,870</u>	<u>169,870</u>
<i>Fund Balance - End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 69,004</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 60,258</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 129,494</u>

Marlow School District No.1-003, Stephens County, Oklahoma
Combining Statement of Assets, Liabilities and Fund Equity
Regulatory Basis - Activity Fund
June 30, 2015

<u>ASSETS</u>	<u>School Activity Fund</u>
Cash	\$ 287,982
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 287,982</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Due To Activity Groups	\$ <u>287,982</u>
<i>Total Liabilities</i>	<u>\$ 287,982</u>
Fund Equity:	
Unassigned	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 287,982</u>

Marlow School District No.1-003, Stephens County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ended June 30, 2015

<u>ACTIVITIES</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
General Athletics	\$ 25,478	\$ 206,147	\$ 167,782	\$ 63,844
Academic Team	45	0	45	(0)
Art Club	634	711	1,304	41
Band	8,760	23,292	25,625	6,427
Business	291	0	0	291
High School Cheer	7,984	34,454	27,792	14,646
Bootleggers	11,198	26,725	24,854	13,069
Academic Team	17,886	11,555	13,019	16,422
Elementary Yearbook	5,379	8,447.47	6,188	7,639
Elementary	24,637	18,282	14,486	28,433
Middle School FCA	545	680	500	725
F.C.A.	2,919	625	1,558	1,986
F.F.A.	32,818	75,029	78,344	29,503
FCCLA	203	5,264	4,261	1,205
Foreign Language	310	1,535	1,077	769
General Fund Refund	0	13,055	13,055	0
High School Activity	10,109	3,876	6,623	7,361
High School Yearbook	2,187	11,257	9,834	3,610
Junior	818	12,455	12,503	770
Middle School	1,934	2,493	3,344	1,083
Middle School Yearbook	9,994	11,108	12,224	8,878
Mid School Cheerleaders	2,933	10,435	6,080	7,288
Miscellaneous	1,063	5,805	3,557	3,312
National Honor Society	12	585	505	93
Petty Cash	0	200	200	0
S.A.D.D.	292	0	292	0
Science Club	1,340	0	0	1,340
Senior	393	826	969	250
Drama	9,813	9,793	9,064	10,542
Student Council	1,573	18,055	16,081	3,547
Vocal Music	927	39,834	38,218	2,543
Elementary Library	8,674	7,516	1,419	14,771
Computer Science	948	0	0	948
Middle School Library	1,984	2,505	3,266	1,222
Middle School Web Pro	1,003	0	0	1,003
Marlow Special Olympics	709	0	0	709
Chisolm Trail Alt. Schl	1,045	0	1,045	0
Middle School Student	1,132	13,897	13,755	1,274
Newspaper	4,596	282	940	3,938
High School Library	2,895	685	1,768	1,813
Middle School Academic	690	1,064	1,255	499
Football Fundraier	3,656	30,482	20,776	13,362
Golf Fundraiser	8,481	16,023	17,278	7,226
Middle School Computer	7	0	7	0
Wrestling Fundraiser	3,460	9,459	9,233	3,686
Middle School Science	1,312	1,660	1,681	1,291
MHS Scholarship Account	0	625	0	625
Total Activities	<u>\$ 223,068</u>	<u>\$ 636,722</u>	<u>\$ 571,808</u>	<u>\$ 287,982</u>

MARLOW INDEPENDENT SCHOOL DISTRICT NO. 3, STEPHENS COUNTY
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

REVISED 1-8-16

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	Federal CFDA#	Pass-Through Grantor's Project Number	Deferred Revenue (Accounts Receivable) July 1, 2014	Federal Grant Receipts	Federal Grant Expenditures	Deferred Revenue (Accounts Receivable) June 30, 2015	Indirect Costs Included in Federal Expenditures
U.S. Department of Education							
Direct Programs:							
Indian Education Title VII	84.060A	561	(38,970)	38,970	38,318	(38,318)	0
Passed Through Oklahoma State Department of Education:							
Title I, Basic	84.010	511	(172,188)	172,188	191,165	(191,165)	0
Title I Cluster			(172,188)	172,188	191,165	(191,165)	0
IDEA-B Flowthrough	84.027	621	(3,001)	516,923	516,650	(2,728)	0
IDEA-B Preschool	84.173	641	0	10,314	10,314	0	0
Special Education Cluster			(3,001)	527,237	526,964	(2,728)	0
Title II, Part A	84.367	541	(50,836)	50,836	49,501	(49,501)	0
Title VI, Part B	84.358B	587	(25,599)	25,599	26,587	(26,587)	0
Passed Through the Oklahoma Department of Vocational Education							
Carl Perkins	84.048	421	(12,999)	12,999	10,000	(10,000)	0
Total U.S. Department of Education			(303,593)	827,829	842,535	(318,299)	0
U.S. Department of Agriculture							
Passed Through State Department of Education:							
Breakfast Program	10.553	764	0	79,175	79,175	0	0
Lunch Program	10.555	763	295	249,032	249,327	0	0
Commodities Distributed-Lunch	10.555	N/A	0	6,977	6,977	0	0
Child Nutrition Cluster			295	335,184	335,479	0	0
Total U.S. Department of Agriculture			295	335,184	335,479	0	0
Other Federal Assistance							
Johnson O'Malley	15.130	563	(5,874)	5,874	5,640	(5,640)	0
Chickasha Nation Public Housing	15.130	771	0	4,044	4,964	(920)	0
Total Other Federal Assistance			(5,874)	9,918	10,604	(6,560)	0
TOTAL FEDERAL ASSISTANCE			(309,172)	1,172,931	1,188,618	(324,859)	0

Note 1 - The Schedule of Federal Awards expended was prepared using the same accounting policies used in preparing the District's Financial Statements. The District's policy is to recognize expenditures when encumbered (contracted for) rather than at the time the related fund liability is incurred.

Note 2 - Commodities received were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount

CERTIFIED PUBLIC ACCOUNTANTS

**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**

The Honorable Board of Education
Marlow Independent School District #3
Stephens County, Oklahoma

Board Members:

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 **Marlow Independent School District #3**, Stephens 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 financial statements and have issued our report thereon dated November 9, 2015. The report on these financial statements was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Marlow Independent School District #3**, Stephens 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 the effectiveness of The District's internal control. Accordingly, we do not express an opinion on the effectiveness of The District's internal control.

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

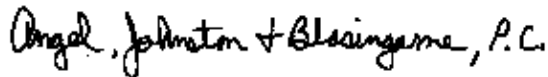
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The District's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of 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.



Chickasha, Oklahoma
November 9, 2015

CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Board of Education
Marlow Independent School District #I-3
Stephens County, Oklahoma

Board Members:

Report on Compliance for Each Major Federal Program

We have audited **Marlow Independent School District #I-3**, Stephens 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 the District's major federal programs for the year ended June 30, 2015. The District'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 **Marlow Independent School District, I-3** Stephens County, Oklahoma's, major federal programs based on our audit of the types of compliance requirements referred 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 the District'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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, **Marlow Independent School District #I-3**, Stephens 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.

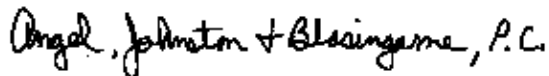
Report on Internal Control Over Compliance

Management of the District 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 the District'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 the District'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.



Chickasha, Oklahoma
November 9, 2015

Marlow ISD No. 3, Stephens County
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

Type of Auditor's Report Issued: Adverse opinion on the combined financial statements in conformity with generally accepted accounting principles and a qualified opinion for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma Department of Education.

Internal Control Over Financial Reporting:

Material Weakness(es) identified? ___ Yes X No

Significant Deficiencies identified not considered to be material weaknesses? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards:

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

Internal Control Over Major Programs:

Material Weakness(es) identified? ___ Yes X No

Significant Deficiencies identified not considered to be material weaknesses? ___ Yes X No

Audit Findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? ___ Yes X No

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

Auditee Qualified as low-risk auditee under OMB Circular A-133 Section 20? ___ Yes X No

Identification of Major Programs:

CFDA#

10.553,10.555	Child Nutrition Fund Cluster
84.027, 84.173	Special Education Cluster

Marlow ISD No.3, Stephens County
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2015

Findings-Financial Statement Audit

(None Reported)

Findings and Questioned Costs – Major Federal Award Programs Audit

(None Reported)

Marlow ISD No. 3, Stephens County
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2015

2014-1 - Finding

Statement of Condition – Matching federal teacher retirement was not paid on child nutrition fund workers coded to 763 and 764 federal project codes.

Criteria – Teacher retirement requires a federal match of 8.25% be paid on all salaries coded to federal project codes.

Cause/Effect of Condition – The software was not updated to include the federal project codes for 763 and 764, and therefore, teacher retirement is underpaid approximately \$6,031.

Recommendation –The school should contact teacher retirement to see how to handle this underpayment. Also, the software should be updated to include all federal project codes that should have matching teacher retirement paid.

Current Status - This was not noted for the 2014-15 year.

2014-2 - Finding

Statement of Condition – A deposit for the FFA activity fund sub account, in the amount of \$7,943, was incorrectly coded to the Cheerleading account in September 2013. The misclassification was recognized and corrected during the year, but the cheer sponsor had already spent the money, therefore, the correction created a negative balance for the cheer sub-account. The FFA sponsor and board of education agreed to transfer \$7,000 back to the cheer account until they were able to raise enough funds to pay it back.

Criteria – Procedures should be in place to ensure deposits get coded to the proper sub-account.

Cause/Effect of Condition – This was just an oversight, but it caused a sponsor to spend more money than was actually available.

Recommendation – A procedure could be implemented to have sponsors review their sub-accounts monthly and inform the activity fund custodian of any discrepancies noted.

Current Status - This was not noted during the 2014-15 year.

OTHER INFORMATION

