

NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. 1
MCCLAIN COUNTY, OKLAHOMA
JUNE 30, 2015

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MCCLAIN COUNTY, OKLAHOMA
JUNE 30, 2015

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**NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. I-1, MCCLAIN COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2015**

BOARD OF EDUCATION

| | |
|----------------|-----------------|
| President | James Albertson |
| Vice President | Randy Corbin |
| Clerk | Doug Harryman |
| Deputy Clerk | Gary Knowles |
| Member | John Maker |

SUPERINTENDENT OF SCHOOLS

Patrick O'Brien III

ENCUMBRANCE CLERK/CHIEF OPERATING OFFICER

Jeff Landes

SCHOOL DISTRICT TREASURER

Jimmie Holman

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Newcastle Independent School District #1
McClain 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 **Newcastle Independent School District #1**, McClain 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 **Newcastle Independent School District #1** McClain 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 **Newcastle Independent School District #1**, McClain 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 **Newcastle Independent School District, #1**, McClain 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 **Newcastle Independent School District #1, McClain 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 February 4, 2016, on our consideration of the **Newcastle Independent School District, #1, McClain 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 **Newcastle Independent School District, #1, McClain County, Oklahoma's** internal control over financial reporting and compliance.

Angel, Johnson + Blessingame, P.C.

Chickasha, Oklahoma
February 4, 2016

COMBINED FINANCIAL STATEMENTS

Newcastle School District No.1-001, McClain 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 | \$ 1,646,126 | \$ 114,079 | \$ 212,782 | \$ 185,305 | \$ 258,090 | \$ 0 | \$ 2,416,383 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amounts Available in Debt Service Fund | 0 | 0 | 0 | 0 | 0 | 212,782 | 212,782 |
| Amounts to be Provided for Retirement of General Long-Term Debt | 0 | 0 | 0 | 0 | 0 | 3,712,218 | 3,712,218 |
| Amounts to be Provided For Capitalized Lease Agreements | 0 | 0 | 0 | 0 | 0 | 37,449,179 | 37,449,179 |
| Amounts to be Provided For Compensated Absences | 0 | 0 | 0 | 0 | 0 | 108,623 | 108,623 |
| Total Assets | \$ 1,646,126 | \$ 114,079 | \$ 212,782 | \$ 185,305 | \$ 258,090 | \$ 41,482,802 | \$ 43,899,185 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Warrants Payable | \$ 240,291 | \$ 4,325 | \$ 0 | \$ 3,874 | \$ 0 | \$ 0 | \$ 248,491 |
| Reserve for Encumbrances | 654,112 | 13,673 | 0 | 16,779 | 0 | 0 | 684,565 |
| Due to Activity Groups | 0 | 0 | 0 | 0 | 258,090 | 0 | 258,090 |
| General Obligation Bonds Payable | 0 | 0 | 0 | 0 | 0 | 3,925,000 | 3,925,000 |
| Capitalized Lease Obligations Payable | 0 | 0 | 0 | 0 | 0 | 37,449,179 | 37,449,179 |
| Compensated Absences Payable | 0 | 0 | 0 | 0 | 0 | 108,623 | 108,623 |
| Total Liabilities | \$ 894,404 | \$ 17,999 | \$ 0 | \$ 20,653 | \$ 258,090 | \$ 41,482,802 | \$ 42,673,947 |
| Fund Balances: | | | | | | | |
| Restricted For: | | | | | | | |
| Debt Service | \$ 0 | \$ 0 | \$ 212,782 | \$ 0 | \$ 0 | \$ 0 | \$ 212,782 |
| Capital Projects | 0 | 0 | 0 | 164,652 | 0 | 0 | 164,652 |
| Building Programs | 0 | 96,081 | 0 | 0 | 0 | 0 | 96,081 |
| Child Nutrition Programs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cooperative Programs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unassigned | 751,723 | 0 | 0 | 0 | 0 | 0 | 751,723 |
| Total Fund Balances | \$ 751,723 | \$ 96,081 | \$ 212,782 | \$ 164,652 | \$ 0 | \$ 0 | \$ 1,225,238 |
| Total Liabilities and Fund Balances | \$ 1,646,126 | \$ 114,079 | \$ 212,782 | \$ 185,305 | \$ 258,090 | \$ 41,482,802 | \$ 43,899,185 |

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

Newcastle School District No.1-001, McClain 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 | \$ 3,212,380 | \$ 461,406 | \$ 3,769,562 | \$ 0 | \$ 7,443,347 |
| Intermediate Sources | 304,889 | 0 | 0 | 0 | 304,889 |
| State Sources | 6,616,729 | 1 | 12 | 0 | 6,616,742 |
| Federal Sources | 1,384,691 | 0 | 0 | 0 | 1,384,691 |
| Non-Revenue Receipts | 1,673 | 0 | 29,045 | 0 | 30,718 |
| <i>Total Revenue Collected</i> | <u>\$ 11,520,362</u> | <u>\$ 461,407</u> | <u>\$ 3,798,619</u> | <u>\$ 0</u> | <u>\$ 15,780,388</u> |
| Expenditures Paid: | | | | | |
| Instruction | \$ 6,899,566 | \$ 0 | \$ 0 | \$ 3,846,881 | \$ 10,746,447 |
| Support Services | 4,299,858 | 340,844 | 0 | 0 | 4,640,703 |
| Operation of Non-Instructional Services | 563,312 | 0 | 0 | 0 | 563,312 |
| Facilities Acquisition and Construction | 101,433 | 95,549 | 0 | 0 | 196,982 |
| Other Outlays | 1,673 | 0 | 0 | 0 | 1,673 |
| 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 | 3,705,000 | 0 | 3,705,000 |
| Interest and Fiscal Agent Fees | 0 | 0 | 40,755 | 0 | 40,755 |
| <i>Total Expenditures Paid</i> | <u>\$ 11,865,842</u> | <u>\$ 436,393</u> | <u>\$ 3,745,755</u> | <u>\$ 3,846,881</u> | <u>\$ 19,894,871</u> |
| <i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i> | <u>\$ (345,480)</u> | <u>\$ 25,014</u> | <u>\$ 52,864</u> | <u>\$ (3,846,881)</u> | <u>\$ (4,114,484)</u> |
| Adjustments to Prior Year Encumbrances | <u>\$ 0</u> | <u>\$ 3,131</u> | <u>\$ 0</u> | <u>\$ 3,930</u> | <u>\$ 7,061</u> |
| Other Financing Sources (Uses): | | | | | |
| Estopped Warrants | \$ 714 | \$ 0 | \$ 0 | \$ 0 | \$ 714 |
| Bond Proceeds | 0 | 0 | 0 | 3,925,000 | 3,925,000 |
| Transfers In | 310,874 | 0 | 0 | 0 | 310,874 |
| Transfers Out | (1,406) | 0 | 0 | 0 | (1,406) |
| <i>Total Other Financing Sources (Uses)</i> | <u>\$ 310,181</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 3,925,000</u> | <u>\$ 4,235,181</u> |
| <i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i> | <u>\$ (35,299)</u> | <u>\$ 28,145</u> | <u>\$ 52,864</u> | <u>\$ 82,049</u> | <u>\$ 127,759</u> |
| <i>Fund Balance - Beginning of Year</i> | <u>787,022</u> | <u>67,936</u> | <u>159,918</u> | <u>82,603</u> | <u>1,097,479</u> |
| <i>Fund Balance - End of Year</i> | <u>\$ 751,723</u> | <u>\$ 96,081</u> | <u>\$ 212,782</u> | <u>\$ 164,652</u> | <u>\$ 1,225,238</u> |

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

Newcastle School District No.1-001, McClain 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 | \$ 2,855,857 | \$ 2,855,857 | \$ 3,212,380 | \$ 408,293 | \$ 408,293 | \$ 461,406 | \$ 3,585,837 | \$ 3,585,837 | \$ 3,769,574 |
| Intermediate Sources | 260,000 | 260,000 | 304,889 | 0 | 0 | 0 | 0 | 0 | 0 |
| State Sources | 6,174,958 | 6,491,765 | 6,616,729 | 0 | 0 | 1 | 0 | 0 | 0 |
| Federal Sources | 1,378,091 | 1,491,925 | 1,384,691 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Revenue Receipts | 0 | 0 | 1,673 | 0 | 0 | 0 | 0 | 0 | 29,045 |
| <i>Total Revenue Collected</i> | <u>\$ 10,668,906</u> | <u>\$ 11,099,547</u> | <u>\$ 11,520,362</u> | <u>\$ 408,293</u> | <u>\$ 408,293</u> | <u>\$ 461,407</u> | <u>\$ 3,585,837</u> | <u>\$ 3,585,837</u> | <u>\$ 3,798,619</u> |
| Expenditures Paid: | | | | | | | | | |
| Instruction | \$ 11,690,928 | \$ 12,121,569 | \$ 6,899,566 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Support Services | 0 | 0 | 4,299,858 | 476,229 | 476,229 | 340,844 | 0 | 0 | 0 |
| Operation of Non-Instructional Services | 0 | 0 | 563,312 | 0 | 0 | 0 | 0 | 0 | 0 |
| Facilities Acquisition and Construction | 0 | 0 | 101,433 | 0 | 0 | 95,549 | 0 | 0 | 0 |
| Other Outlays | 0 | 0 | 1,673 | 0 | 0 | 0 | 3,745,755 | 3,745,755 | 3,745,755 |
| 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>\$ 11,690,928</u> | <u>\$ 12,121,569</u> | <u>\$ 11,865,842</u> | <u>\$ 476,229</u> | <u>\$ 476,229</u> | <u>\$ 436,393</u> | <u>\$ 3,745,755</u> | <u>\$ 3,745,755</u> | <u>\$ 3,745,755</u> |
| <i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i> | <u>\$ (1,022,022)</u> | <u>\$ (1,022,022)</u> | <u>\$ (345,480)</u> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 25,014</u> | <u>\$ (159,918)</u> | <u>\$ (159,918)</u> | <u>\$ 52,864</u> |
| Adjustments to Prior Year Encumbrances | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 3,131</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> |
| Other Financing Sources (Uses): | | | | | | | | | |
| Estopped Warrants | \$ 0 | \$ 0 | \$ 714 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Transfers In | 235,000 | 235,000 | 310,874 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers Out | 0 | 0 | (1,406) | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>\$ 235,000</u> | <u>\$ 235,000</u> | <u>\$ 310,181</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>\$ (787,022)</u> | <u>\$ (787,022)</u> | <u>\$ (35,299)</u> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 28,145</u> | <u>\$ (159,918)</u> | <u>\$ (159,918)</u> | <u>\$ 52,864</u> |
| <i>Fund Balance - Beginning of Year</i> | <u>787,022</u> | <u>787,022</u> | <u>787,022</u> | <u>67,936</u> | <u>67,936</u> | <u>67,936</u> | <u>159,918</u> | <u>159,918</u> | <u>159,918</u> |
| <i>Fund Balance - End of Year</i> | <u>\$ (0)</u> | <u>\$ 0</u> | <u>\$ 751,723</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 96,081</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 212,782</u> |

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

Newcastle ISD No. 1, McClain 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 Newcastle Public Schools Independent District No.1, McClain 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."

Newcastle ISD No. 1, McClain 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.

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.

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 Districts 2008-2014 Combined Purpose Bond issues. These funds are used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, and acquiring transportation equipment.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. 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.

Newcastle ISD No. 1, McClain 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)

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:

- 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.

Newcastle ISD No. 1, McClain 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)

- 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.

Newcastle ISD No. 1, McClain 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 been reported in the general long-term debt account group.

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.

Newcastle ISD No. 1, McClain 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)

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

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

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.

Newcastle ISD No. 1, McClain 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, (contined)

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.

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 | \$ | 2,699,163 |
| Time Deposits | | <u>0</u> |
| Total Deposits | \$ | <u><u>2,699,163</u></u> |
| Investments | | |
| | <u>Credit Rating</u> | <u>Maturity</u> |
| | | <u>Fair Value</u> |
| Total Investments | \$ | <u><u>0</u></u> |
| Reconciliation to the Combined Statement of Assets, Liabilities and Equity | | |
| Cash and Cash Equivalents | \$ | 2,416,383 |
| Activity Fund Outstanding Checks | | <u>282,780</u> |
| Total Deposits and Investments | \$ | <u><u>2,699,163</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

Newcastle ISD No. 1, McClain County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 2 – Deposit and Investment Risk, (continued)

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.

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 or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully uninsured certificates of deposit or savings accounts in out-of-state financial institutions.
3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
4. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
5. Warrants, bonds or judgments of the school district.
6. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.
7. 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.
8. 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 did not have any investments in debt securities as of June 30, 2015.

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 did not have any investments as of June 30, 2014.

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.

Newcastle ISD No. 1, McClain 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. Bond issues have been approved by the voters and issued by the District for various capital improvements and transportation purposes. 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, capital lease purchases, and obligations for compensated absences. Debt service requirements for bonds are payable solely from the 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:

| | Bonds Payable | Capital Lease Obligations | Compensated Absences | Total |
|------------------------|---------------------|---------------------------|----------------------|----------------------|
| Balance July 1, 2014 | \$ 3,705,000 | \$ 40,825,251 | \$ 113,246 | \$ 44,643,497 |
| Additions | 3,925,000 | 173,589 | 0 | 4,098,589 |
| Retirements | 3,705,000 | 3,549,661 | 4,623 | 7,259,284 |
| Balance, June 30, 2015 | <u>\$ 3,925,000</u> | <u>\$ 37,449,179</u> | <u>\$ 108,623</u> | <u>\$ 41,482,802</u> |

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 Combined Purpose Bonds | 1.00% | July 1, 2016 | \$ 3,925,000 | \$ 3,925,000 |
| Totals | | | \$ 3,925,000 | \$ 3,925,000 |

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

| | Principal | Interest | Total |
|------------------------------------|---------------------|------------------|---------------------|
| 2014 Combined Purpose Bonds | | | |
| 2015-16 | \$ 0 | \$ 39,250 | \$ 39,250 |
| 2016-17 | 3,925,000 | 39,250 | 3,964,250 |
| Sub Total | \$ 3,925,000 | \$ 78,500 | \$ 4,003,500 |
| Total Bonds | \$ 3,925,000 | \$ 78,500 | \$ 4,003,500 |

Interest expense on bonds payable incurred during the current year totaled \$40,755.

The District has entered into lease agreements as lessee for financing the acquisition of technology, lighting upgrade, land and construction of new schools and improvements. These lease agreements qualify as capital leases for accounting purposes since the 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.

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 leases.

Newcastle ISD No. 1, McClain 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 | Newcastle Educational Facilities Auth 2010 A & B Lease Purchase | Newcastle Educational Facilities Auth 2010 C & D Lease Purchase | Technology | Total |
|---|---|---|-------------------|----------------------|
| 2016 | \$ 368,541 | \$ 3,380,609 | \$ 60,809 | \$ 3,809,959 |
| 2017 | 392,871 | 3,603,779 | 60,808 | 4,057,458 |
| 2018 | 418,660 | 3,840,340 | 40,539 | 4,299,539 |
| 2019 | 1,200,000 | 3,336,200 | 0 | 4,536,200 |
| 2020 | 475,104 | 4,358,096 | 0 | 4,833,200 |
| 2021 | 505,758 | 4,639,292 | 0 | 5,145,050 |
| 2022 | 513,544 | 4,710,706 | 0 | 5,224,250 |
| 2023 | 545,658 | 5,005,292 | 0 | 5,550,950 |
| Total | \$ 4,420,136 | \$ 32,874,314 | \$ 162,156 | \$ 37,456,606 |
| Less: Amount representing Interest | 0 | 0 | -7,427 | -7,427 |
| Present Value of Future Minimum Lease Payments | \$ <u>4,420,136</u> | \$ <u>32,874,314</u> | \$ <u>154,729</u> | \$ <u>37,449,179</u> |

Also, the District accrues for unused sick leave for eligible employees. Unused sick leave for certified salaries is calculated at various rates up to 120 days depending upon years of service. Any amount in excess of 120 days is paid at \$15 per day upon retirement by the district. Unused sick leave is paid to noncertified employees at various rates up to 120 days depending upon years of service. However, no amounts are paid for days in excess of 120 days upon retirement. The liability for compensated absences at June 30, 2015, is as follows:

| | |
|---------------------------------------|-------------------|
| Unused Sick Leave Liability-Certified | \$ 95,938 |
| Unused Sick Leave Liability-Support | <u>12,685</u> |
| Total Compensated Absences | <u>\$ 108,623</u> |

Note 4- Teacher Retirement

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.

Newcastle ISD No. 1, McClain County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 4 – Teacher Retirement, (continued)

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%.

The District's contributions to the System for the years ending June 30, 2015, 2014, and 2013 were \$626,487, \$572,539, and \$578,547, respectively.

The compensation for employees covered by the System for the year ended June 30, 2015 was \$6,484,050; the District's total compensation was \$8,178,905. 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 \$44,170. There were \$325,001 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.

Newcastle ISD No. 1, McClain County
Notes To The Financial Statements
For The Year Ended June 30, 2015

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.

Litigation

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable and the amounts are not readily estimable, the District believes the resolution of these matters will not have a material adverse effect on the financial statements and may be settled by the District's insurance carrier. The District intends to vigorously defend itself on the various lawsuits.

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 - \$77,120,226; general liability - \$1,000,000; and educators 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.

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.

Newcastle ISD No. 1, McClain County
Notes To The Financial Statements
For The Year Ended June 30, 2015

Note 8– Surety Bonds

The treasurer/activity fund custodian is bonded by RLI Insurance Company, bond number LSM0479456 for the penal sum of \$250,000 for the term February 28, 2015 to February 28, 2016.

The Superintendent is bonded by RLI Insurance Company, bond number LSM0479455 for the penal sum of \$250,000 for the term February 28, 2015 to February 28, 2016.

The encumbrance clerk/payroll clerk is bonded by RLI Insurance Company, bond number LSM0479451 for the penal sum of \$100,000 for the term February 28, 2015 to February 28, 2016.

The minutes clerk is bonded by RLI Insurance Company, bond number LSM0479452 for the penal sum of \$100,000 for the term February 28, 2015 to February 28, 2016.

Note 9 – Budget Amendments

The General Fund Budget was amended once during the year by filing a supplemental appropriations form with the county clerk’s office. The supplemental appropriations form was filed on February 9, 2015 in the amount of \$430,641.07. This increased the original General Fund Budget from \$11,690,928.11 to \$12,121,569.18.

Note 10 – Subsequent Events

In June 2015, the District issued \$4,160,000 in Combined Purpose Bonds Series VI. The proceeds from these bonds will be used to construct, furnish, equip, and/or acquire a new auditorium to include but not limited to: site improvement, concrete, masonry, metals, wood and plastics, and thermal and moisture protection. The bond has coupon rate of 1.15% and a maturity date of July 2017.

OTHER SUPPLEMENTAL INFORMATION

Newcastle School District No.I-001, McClain 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>Total June 30, 2015</u> |
|---|---------------------------------|---|
| Cash and Cash Equivalents | \$ 114,079 | \$ 114,079 |
| Investments | <u>0</u> | <u>0</u> |
| <i>Total Assets</i> | <u>\$ 114,079</u> | <u>\$ 114,079</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | |
| Liabilities: | | |
| Warrants Payable | \$ 4,325 | \$ 4,325 |
| Reserve for Encumbrances | <u>13,673</u> | <u>13,673</u> |
| <i>Total Liabilities</i> | <u>\$ 17,999</u> | <u>\$ 17,999</u> |
| Fund Balances: | | |
| Restricted | <u>\$ 96,081</u> | <u>\$ 96,081</u> |
| <i>Total Fund Balances</i> | <u>\$ 96,081</u> | <u>\$ 96,081</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 114,079</u> | <u>\$ 114,079</u> |

Newcastle School District No.1-001, McClain 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

| | Building Fund | Total June 30, 2015 |
|--|--------------------------|------------------------------------|
| Revenue Collected: | | |
| Local Sources | \$ 461,406 | \$ 461,406 |
| Intermediate Sources | 0 | 0 |
| State Sources | 1 | 1 |
| Federal Sources | 0 | 0 |
| Non-Revenue Receipts | 0 | 0 |
| <i>Total Revenue Collected</i> | \$ 461,407 | \$ 461,407 |
| Expenditures Paid: | | |
| Instruction | \$ 0 | \$ 0 |
| Support Services | 340,844 | 340,844 |
| Operation of Non-Instructional Services | 0 | 0 |
| Facilities Acquisition and Construction | 95,549 | 95,549 |
| Other Outlays | 0 | 0 |
| Other Uses | 0 | 0 |
| Repayments | 0 | 0 |
| Interest Paid and Bank Charges | 0 | 0 |
| <i>Total Expenditures Paid</i> | \$ 436,393 | \$ 436,393 |
| <i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i> | \$ 25,014 | \$ 25,014 |
| Adjustments to Prior Year Encumbrances | \$ 3,131 | \$ 3,131 |
| Other Financing Sources (Uses): | | |
| Estopped Warrants | \$ 0 | \$ 0 |
| Transfers In | 0 | 0 |
| Transfers Out | 0 | 0 |
| <i>Total Other Financing Sources (Uses)</i> | \$ 0 | \$ 0 |
| <i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i> | \$ 28,145 | \$ 28,145 |
| <i>Fund Balance - Beginning of Year</i> | 67,936 | 67,936 |
| <i>Fund Balance - End of Year</i> | \$ 96,081 | \$ 96,081 |

Newcastle School District No.1-001, McClain 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 | | | Total | | |
|--|--------------------|--------------------|-------------------|--------------------|--------------------|-------------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| Revenue Collected: | | | | | | |
| Local Sources | \$ 408,293 | \$ 408,293 | \$ 461,406 | \$ 408,293 | \$ 408,293 | \$ 461,406 |
| Intermediate Sources | 0 | 0 | 0 | 0 | 0 | 0 |
| State Sources | 0 | 0 | 1 | 0 | 0 | 1 |
| Federal Sources | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-Revenue Receipts | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total Revenue Collected</i> | <u>\$ 408,293</u> | <u>\$ 408,293</u> | <u>\$ 461,407</u> | <u>\$ 408,293</u> | <u>\$ 408,293</u> | <u>\$ 461,407</u> |
| Expenditures Paid: | | | | | | |
| Instruction | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Support Services | 476,229 | 476,229 | 340,844 | 476,229 | 476,229 | 340,844 |
| Operation of Non-Instructional Services | 0 | 0 | 0 | 0 | 0 | 0 |
| Facilities Acquisition and Construction | 0 | 0 | 95,549 | 0 | 0 | 95,549 |
| Other Outlays | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Uses | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayments | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Paid | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Total Expenditures Paid</i> | <u>\$ 476,229</u> | <u>\$ 476,229</u> | <u>\$ 436,393</u> | <u>\$ 476,229</u> | <u>\$ 476,229</u> | <u>\$ 436,393</u> |
| <i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 25,014</u> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 25,014</u> |
| Adjustments to Prior Year Encumbrances | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 3,131</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 3,131</u> |
| Other Financing Sources (Uses): | | | | | | |
| Estopped Warrants | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Transfers In | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers Out | 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> |
| <i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 28,145</u> | <u>\$ (67,936)</u> | <u>\$ (67,936)</u> | <u>\$ 28,145</u> |
| <i>Fund Balance - Beginning of Year</i> | <u>67,936</u> | <u>67,936</u> | <u>67,936</u> | <u>67,936</u> | <u>67,936</u> | <u>67,936</u> |
| <i>Fund Balance - End of Year</i> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 96,081</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 96,081</u> |

Newcastle School District No.1-001, McClain 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 | \$ 258,090 |
| Investments | <u>0</u> |
| <i>Total Assets</i> | <u>\$ 258,090</u> |
| | |
| <u>LIABILITIES AND FUND EQUITY</u> | |
| Liabilities: | |
| Due To Activity Groups | \$ <u>258,090</u> |
| <i>Total Liabilities</i> | <u>\$ 258,090</u> |
| Fund Equity: | |
| Unassigned | \$ <u>0</u> |
| <i>Total Liabilities and Fund Equity</i> | <u>\$ 258,090</u> |

Newcastle School District No.1-001, McClain County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ended June 30, 2015

| ACTIVITIES | July 1, 2014 | Additions | Deletions | June 30, 2015 |
|------------------------------|---------------------|-------------------|-------------------|----------------------|
| Cafeteria | \$ 0 | \$ 297,002 | \$ 297,002 | \$ 0 |
| Athletics | 1,259 | 176,931 | 176,216 | 1,975 |
| Elementary Crafts | 3,847 | 3,895 | 3,566 | 4,176 |
| Band | 3,586 | 2,839 | 4,055 | 2,370 |
| High School | 147 | 2,580 | 2,530 | 197 |
| Class of 2017 | 31 | 2,390 | 704 | 1,717 |
| Elementary Library | 7,654 | 15,453 | 11,795 | 11,312 |
| Elementary Music | 1,685 | 5,210 | 5,663 | 1,232 |
| Elementary PE | 2,442 | 300 | 306 | 2,436 |
| Elementary School | 4,015 | 15,559 | 9,949 | 9,625 |
| Spanish Club | 762 | 0 | 0 | 762 |
| Elementary Tech | 3,248 | 2,504 | 2,171 | 3,581 |
| Drama Club | 1,692 | 5,052 | 3,394 | 3,350 |
| General Fund Refund | 0 | 9,303 | 9,303 | 0 |
| HS Cheer | 6,316 | 41,495 | 29,879 | 17,932 |
| Class of 2015 | 3,589 | 11,152 | 13,157 | 1,585 |
| HS Library | 3,085 | 2,985 | 3,046 | 3,024 |
| HS Choir | 249 | 4,683 | 3,930 | 1,003 |
| HS Stucco | 1,618 | 8,182 | 7,902 | 1,899 |
| Honor Society | 164 | 1,660 | 1,345 | 479 |
| Class of 2016 | 35 | 21,823 | 17,565 | 4,292 |
| Class of 2014 | 496 | 0 | 496 | 0 |
| Class of 2019 (Scholarship) | 1,358 | 292 | 0 | 1,650 |
| Class of 2028 | 600 | 9,724 | 7,012 | 3,312 |
| Math Club | 6,334 | 1,425 | 3,147 | 4,612 |
| MS Library | 2,104 | 5,553 | 7,380 | 277 |
| Middle School | 22 | 2,730 | 2,515 | 237 |
| MS Stucco | 9,243 | 23,907 | 25,665 | 7,486 |
| Miscellaneous | 6,406 | 9,859 | 4,688 | 11,578 |
| FCS | 238 | 0 | 0 | 238 |
| MS Art | 1 | 0 | 0 | 1 |
| HS Yearbook | 25,504 | 14,419 | 6,671 | 33,252 |
| MS Boat Races | 680 | 550 | 530 | 701 |
| FCCLA | 1,193 | 7,594 | 7,454 | 1,332 |
| HS Art | 6,395 | 0 | 0 | 6,395 |
| Elementary Fundraiser | 15,460 | 34,793 | 20,650 | 29,604 |
| Business Professionals | 804 | 1,604 | 1,643 | 765 |
| Pit Crew | 508 | 597 | 518 | 588 |
| Creative Writing Club | 202 | 101 | 150 | 153 |
| Take The Lead/Make a Wi | 64 | 17,740 | 17,754 | 50 |
| Science Club | 0 | 908 | 0 | 908 |
| Elementary Academic Outreach | 0 | 6,889 | 1,300 | 5,589 |
| MS Cheer | 5,515 | 9,000 | 11,525 | 2,990 |
| MS Fundraiser | 3,516 | 8,877 | 8,230 | 4,162 |
| Sports FR/Booster Club | 5,309 | 19,925 | 21,264 | 3,970 |
| Sub Total Activities | <u>\$ 137,378</u> | <u>\$ 807,486</u> | <u>\$ 752,071</u> | <u>\$ 192,793</u> |

Newcastle School District No.1-001, McClain County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ended June 30, 2015
(continued)

| <u>ACTIVITIES</u> | <u>July 1, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>June 30, 2015</u> |
|--------------------------|----------------------------|-------------------------|-------------------------|-----------------------------|
| Book Club | \$ 105 | \$ 0 | \$ 0 | \$ 105 |
| MS Box Top | 0 | 496 | 37 | 459 |
| HS GT's | 458 | 40 | 338 | 160 |
| Elem GT's | 4 | 0 | 0 | 4 |
| MS GT's | 125 | 0 | 0 | 125 |
| ECC Hospitality | 194 | 635 | 554 | 275 |
| Robotics | 4,098 | 21,457 | 22,039 | 3,516 |
| Class of 2018 | 0 | 1,114 | 0 | 1,114 |
| FFA | 8,085 | 68,630 | 70,185 | 6,530 |
| Elementary Yearbook | 4,650 | 5,822 | 3,094 | 7,378 |
| MS Yearbook | 3,360 | 6,610 | 7,109 | 2,861 |
| MS Drama Club | 0 | 2,291 | 1,003 | 1,287 |
| Scholarship | 0 | 1,500 | 0 | 1,500 |
| Class of 2007 | 1,058 | 8,433 | 7,144 | 2,348 |
| Class of 2006 | 1,599 | 8,109 | 9,536 | 173 |
| Class of 2015 | 109 | 2,661 | 2,679 | 91 |
| Class of 2024 | 47 | 3,614 | 3,158 | 503 |
| Class of 2023 | 466 | 1,100 | 987 | 580 |
| Class of 2022 | 66 | 17,238 | 17,238 | 66 |
| Class of 2021 | 169 | 0 | 0 | 169 |
| HS Principal Leadership | 8,579 | 7,949 | 8,280 | 8,248 |
| HS Hospitality | 374 | 260 | 229 | 404 |
| ECC/FERG | 13,608 | 33,178 | 28,112 | 18,673 |
| ECC LIB | 3,398 | 7,601 | 8,497 | 2,502 |
| ECC Yearbook | 2,278 | 4,016 | 1,523 | 4,772 |
| Booster Clubs Liability | 589 | 0 | 589 | 0 |
| Class of 2020 | 423 | 0 | 0 | 423 |
| Class of 2029 | 0 | 1,035 | 0 | 1,035 |
| Sub Total Activities | <u>\$ 53,841</u> | <u>\$ 203,786</u> | <u>\$ 192,330</u> | <u>\$ 65,297</u> |
| Sub Total Activities | <u>\$ 191,219</u> | <u>\$ 1,011,272</u> | <u>\$ 944,401</u> | <u>\$ 258,090</u> |

NEWCASTLE INDEPENDENT SCHOOL DISTRICT NO. 1, MCCLAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass Through Grantor/Program Title</u> | <u>Federal CFDA#</u> | <u>Through Grantor's Project Number</u> | <u>Deferred Revenue (Accounts Receivable) July 1, 2014</u> | <u>Federal Grant Receipts</u> | <u>Federal Grant Expenditures</u> | <u>Deferred Revenue (Accounts Receivable) June 30, 2015</u> | <u>Indirect Cost included in Grant Expenditures</u> |
|---|----------------------|---|--|-------------------------------|-----------------------------------|---|---|
| U.S. Department of Education | | | | | | | |
| <u>Direct Programs:</u> | | | | | | | |
| Physical Education Program Grant (Q215F120105-12A) | 84.215F | 771 | (63,273) | 434,429 | 429,598 | (58,442) | 9,297 |
| Indian Education Title VII | 84.060A | 561 | (32,990) | 107,717 | 95,153 | (20,426) | 2,722 |
| <u>Passed Through Oklahoma State Department of Education:</u> | | | | | | | |
| Title I, Basic | 84.010 | 511 | (32,501) | 113,234 | 173,100 | (92,367) | 3,686 |
| IDEA-B Flowthrough | 84.027 | 621 | (41,835) | 366,392 | 324,557 | 0 | 0 |
| IDEA-B Preschool | 84.173 | 641 | 0 | 8,191 | 8,191 | 0 | 0 |
| Special Education Cluster | | | (41,835) | 374,583 | 332,748 | 0 | 0 |
| Title II, Part A, | 84.367 | 541 | (12,077) | 36,372 | 27,067 | (2,772) | 800 |
| Title VI, Part B Rural and Low Income | 84.358 | 587 | (20,995) | 40,500 | 28,907 | (9,402) | 894 |
| Total U.S. Department of Education | | | (203,671) | 1,106,835 | 1,086,573 | (183,409) | 17,399 |
| U.S. Department of Agriculture | | | | | | | |
| <u>Passed Through State Department of Education:</u> | | | | | | | |
| Breakfast Program | 10.553 | 764 | 0 | 50,195 | 50,195 | 0 | 0 |
| Lunch Program | 10.555 | 763 | 0 | 217,753 | 217,753 | 0 | 0 |
| Commodities Distributed-Lunch (Note 2) | 10.555 | N/A | 0 | 24,400 | 24,400 | 0 | 0 |
| Child Nutrition Cluster | | | 0 | 292,348 | 292,348 | 0 | 0 |
| Total U.S. Department of Agriculture | | | 0 | 292,348 | 292,348 | 0 | 0 |
| U.S. Department of Interior | | | | | | | |
| <u>Passed through Bureau of Indian Affairs:</u> | | | | | | | |
| Johnson O'Malley | 15.130 | 563 | (3,530) | 9,909 | 9,081 | (2,702) | 0 |
| Total U.S. Department of Interior | | | (3,530) | 9,909 | 9,081 | (2,702) | 0 |
| TOTAL FEDERAL ASSISTANCE | | | (207,201) | 1,409,092 | 1,388,002 | (186,111) | 17,399 |

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
Newcastle Independent School District #1
McClain 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 fund type and account group financial statements, regulatory basis, of **Newcastle Independent School District #1**, McClain 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 combined financial statements and have issued our report thereon dated February 4, 2016. The report on these financial statements was adverse because the District has elected to prepare its financial statements on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to the omission of the general fixed asset account group.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Newcastle Independent School District #1**, McClain County, Oklahoma's (The District's), internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs to be significant deficiencies. (2015-1 through 2015-4).

Compliance and Other Matters

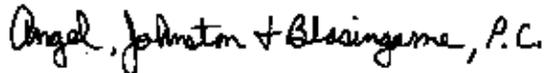
As part of obtaining reasonable assurance about whether The District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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*.

Newcastle Independent School District #1, Oklahoma's, Response to Findings

Newcastle Independent School District #1, Oklahoma's responses to the findings identified in our audit are described in the attached corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

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
February 4, 2016

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
Newcastle Independent School District #I-1
McClain County, Oklahoma

Board Members:

Report on Compliance for Each Major Federal Program

We have audited **Newcastle Independent School District #I-1**, McClain 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 **Newcastle Independent School District, I-1** McClain 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, **Newcastle Independent School District #I-1**, McClain 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.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
February 4, 2016

Newcastle ISD No.1, McClain 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? X Yes ___ 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#

| | |
|----------------|----------------------------------|
| 84.215F | Physical Education Program Grant |
| 84.027, 84.173 | Special Education Cluster |

Newcastle ISD No. 1, McClain County
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2015
(continued)

Findings-Financial Statement Audit

2015-1 - Finding

Statement of Condition – During testing of activity fund fundraisers, we noted the FFA spring meat sale had a deposit that was held for 10 days before being turned into the activity fund custodian for deposit. We also noted the Elementary fall book fair fundraiser had two deposits that were held for (2) two days prior to being turned into the activity fund custodian for deposit.

Criteria – Oklahoma State Statutes require deposits be made daily if over \$100, but never less than once a week.

Cause/Effect of Condition – Sponsors did not turn money in daily to the person in charge of depositing money. This increases the risk of loss or theft of money.

Recommendation – Sponsors should be required to turn in money daily to the person in charge of depositing money in the bank.

2015-2 - Finding

Statement of Condition – The Wrestling Booster club ordered and received wrestling supplies totaling \$6,024.20 for the school after donating money to the Activity Fund to pay the bill. The invoice dated 9/4/14 was not paid until 5/20/15 because the Booster club failed to turn in the invoice to the activity fund custodian.

Criteria – Booster club members do not have authority to order and receive items that the school pays for.

Cause/Effect of Condition – School Activity Fund procedures were not followed. This resulted in a past due bill. The sponsor, wrestling coach, should have ordered and received the wrestling supplies for the school activity fund.

Recommendation – Activity fund sponsors should place orders that are shipped and received on school premises. There should be a clear distinction between the booster club account and the school.

Newcastle ISD No. 1, McClain County
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2015
(continued)

2015-3 - Finding

Statement of Condition – During testing of payroll contracts, we noted the following:

1. One special education teacher was paid an additional 5%; however this was not specified on the contract.
2. We noted a few time sheets that were not signed by either the employee or supervisor.

Criteria –The special education teacher was entitled to the 5% additional pay; however it should be stated on the contract. Time sheets should be signed by both the employee and supervisor.

Cause/Effect of Condition – It appears these were oversights by management. The school has policies and procedures in place to monitor payroll. The school could have inadequate supporting documentation to substantiate employees pay.

Recommendation – All pay should be documented on the contract and all time sheets should be signed by both the employee and supervisor.

2015-4 – Finding

Statement of Condition - It was brought to our attention that the school was receiving several bills (in August 2015) for cheerleading activities (e.g. camp fees) that the Newcastle High School Cheer or Newcastle Middle School Cheer activity fund subaccounts did not have adequate funds to pay. It was also noted that these invoices were for activities in the fiscal year 14-15. The Superintendent inquired of the cheer sponsor regarding this shortfall. The sponsor then brought over various checks (\$4,485) and cash (\$1,745) in August 2015 to deposit into the cheer subaccount. The checks were all dated March or April 2015. It appears these funds were held by the sponsor well in excess of the daily deposit rule. In FY14-15, those participating in the cheer program were required to pay \$950 (high school cheer) and \$600 (middle school cheer) per person. Upon review of the High School Cheer and Middle School Cheer detail by code ledger, we were unable to determine if all participants actually paid their required fees. Many payments on account were made, but we had no documentation to determine who had paid, how much they paid or if they still owed. It did appear that not all of the fees were paid; therefore, the cause of the subaccount not having sufficient funds to pay the outstanding bills. The school will be paying the additional bills from the General Fund during the fiscal year 15-16. Even though the bills are for a prior fiscal year, the school was not aware of these obligations until the 15-16 fiscal years and should be able to encumber these funds from the current year appropriations. It also appears that the sponsor did not follow proper procedures to purchase goods/services by getting an approved purchase requisition prior to purchasing the goods/services. The school was not aware of these expenditures until the invoices began to show up from the vendor.

Newcastle ISD No. 1, McClain County
Schedule of Findings and Questioned Cost
For the Year Ended June 30, 2015
(continued)

Criteria: Oklahoma State Statutes require deposits be made daily if over \$100, but never less than once a week. Also, records should be maintained to document and track which participants have paid, how much and if any additional is owed. Outstanding amounts owed should be tracked and steps taken to collect these outstanding balances. An approved purchase requisition should initiate the purchasing process prior to ordering any good/service.

Cause/Effect of Condition: The sponsor did not turn in money on a daily basis to the activity fund custodian. By the sponsor holding these funds, it heightens the possibility that the funds could be lost or stolen. The sponsor also did not appear to have a good system of tracking which participants paid, how much or if additional amounts were owed. The sponsor also did not appear to follow up on trying to collect these outstanding balances owed. The sponsor also did not follow procedures with regard to obtaining an approved purchase requisition prior to ordering goods/services.

Recommendation: Activity funds should be deposited on a daily basis if in excess of \$100, but never less than once per week. Sponsors should track funds received by students and any outstanding balances pursued for collection. Also, a purchase requisition should initiate the purchasing process prior to ordering any good/service.

Findings and Questioned Costs – Major Federal Award Programs Audit

(None Reported)

Newcastle ISD No. 1, McClain County
Summary Schedule of Prior Year Audit Findings
For Year Ended June 30, 2015

2014-1 - Finding

Statement of Condition – The Chief Operating Officer did not have a contract for the 2013-14 year. He was paid the same as the 2012-13 year contract.

Criteria – Oklahoma State Statutes require employees paid over \$500 have a signed contract or purchase order.

Cause/Effect of Condition – This oversight increases risk that employees could be paid more or less than the board/management intended.

Recommendation – The District should update and properly execute an employment contract each year or identify multiple years the contract will cover.

Current Status – This was corrected for the 2014-15 year.

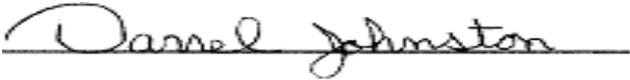
OTHER INFORMATION

Newcastle ISD No. 1, McClain County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2015

STATE OF OKLAHOMA)
)ss
COUNTY OF GRADY)

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 *Newcastle Independent School District* for the audit year 2014-15.

ANGEL, JOHNSTON, & BLASINGAME, P.C.



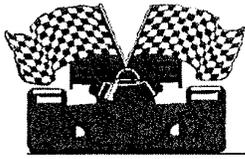
by _____

Subscribed and sworn to before me this ____ day of _____, 2016.

Notary Public

My Commission Expires 7-01-18

SCHOOL'S CORRECTIVE ACTION PLAN



Newcastle Public Schools

Tony O'Brien, Superintendent
tobrien@newcastle.k12.ok.us

101 North Main
Newcastle, OK 73065
(405) 387-2890 office
(405) 387-3482 fax
www.newcastle.k12.ok.us

Newcastle Public School District I-001 McClain County #47

Audit Findings Corrective Action Plan Audit Year 2014-2015

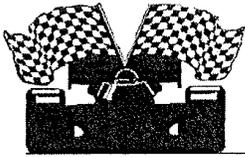
Audit Finding Reference #: 2015-1

Description of Finding: During testing of activity fund fundraisers, we noted the FFA spring meat sale had a deposit that was held for 10 days before being turned into the activity fund custodian for deposit. We also noted the Elementary fall book fair fundraiser had two deposits that were held for (2) two days prior to being turned into the activity fund custodian for deposit.

Contact Person: Tony O'Brien

Steps Implemented: The Activity Fund Clerk, Jimmie Holman, has been directed to check each deposit for compliance to the State Law that governs activity fund deposits. Activity Fund sponsors that violate those provisions will be required to sign an Activity Fund Infraction Acknowledgment that outlines the penalties for sponsors that fail to follow those provisions.

Completion Date: Effective Immediately



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Newcastle Public School District I-001 McClain County #47

Audit Findings Corrective Action Plan Audit Year 2014-2015

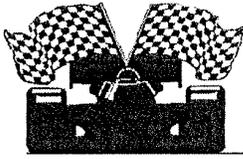
Audit Finding Reference #: 2015-2

Description of Finding: The Wrestling Booster club ordered and received wrestling supplies totaling \$6,024.20 for the school after donating money to the Activity Fund to pay the bill. The invoice dated 9/4/14 was not paid until 5/20/15 because the Booster club failed to turn in the invoice to the activity fund custodian.

Contact Person: Tony O'Brien

Steps Implemented: The Activity Fund Clerk, Jimmie Holman, has been directed to notify the Superintendent anytime it appears that school funds have been obligated by non-school employees so that appropriate action can be taken. In regards to this situation, the wrestling coach / activity sponsor and the booster club sponsor have been instructed that the wrestling coach is the only person who can obligate funds from the wrestling activity account.

Completion Date: Effective Immediately



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Newcastle Public School District I-001 McClain County #47

Audit Findings Corrective Action Plan Audit Year 2014-2015

Audit Finding Reference #: 2015-3

Description of Finding: During testing of payroll contracts, we noted the following:

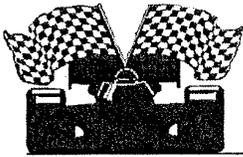
1. One special education teacher was paid an additional 5%; however this was not specified on the contract.
2. We noted a few time sheets that were not signed by either the employee or supervisor.

Contact Person: Tony O'Brien

Steps Implemented: Regarding Item #1: This was mere oversight by the personnel clerk who accidentally printed a standard teacher contract instead of a special education teacher contract when printing a contract for the teacher who was newly hired. The personnel clerk has been directed to pay closer attention when printing contracts.

Regarding Item #2: The payroll clerk has been directed to ensure that ALL time sheets are signed by both employee and supervisor before payroll is processed.

Completion Date: Effective Immediately



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Newcastle Public School District I-001 McClain County #47

Audit Findings Corrective Action Plan Audit Year 2014-2015

Audit Finding Reference #: 2015-4

Description of Finding: It was brought to our attention that the school was receiving several bills (in August 2015) for cheerleading activities (e.g. camp fees) that the Newcastle High School Cheer or Newcastle Middle School Cheer activity fund subaccounts did not have adequate funds to pay. It was also noted that these invoices were for activities in the fiscal year 14-15. The Superintendent inquired of the cheer sponsor regarding this shortfall. The sponsor then brought over various checks (\$4,485) and cash (\$1,745) in August 2015 to deposit into the cheer subaccount. The checks were all dated March or April 2015. It appears these funds were held by the sponsor well in excess of the daily deposit rule. In FY14-15, those participating in the cheer program were required to pay \$950 (high school cheer) and \$600 (middle school cheer) per person. Upon review of the High School Cheer and Middle School Cheer detail by code ledger, we were unable to determine if all participants actually paid their required fees. Many payments on account were made, but we had no documentation to determine who had paid, how much they paid or if they still owed. It did appear that not all of the fees were paid; therefore, the cause of the subaccount not having sufficient funds to pay the outstanding bills. The school will be paying the additional bills from the General Fund during the fiscal year 15-16. Even though the bills are for a prior fiscal year, the school was not aware of these obligations until the 15-16 fiscal years and should be able to encumber these funds from the current year appropriations. It also appears that the sponsor did not follow proper procedures to purchase goods/services by getting an approved purchase requisition prior to purchasing the goods/services. The school was not aware of these expenditures until the invoices began to show up from the vendor.

Contact Person: Tony O'Brien

Steps Implemented: The sponsor of the cheerleading activity fund was removed from that position during the summer of 2015. The new cheerleading sponsor was informed of the policies regarding receipting money, depositing money and obtaining approved purchase orders prior to ordering any good / services.

Completion Date: Effective Immediately