

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

**PURCELL INDEPENDENT SCHOOL DISTRICT NO. I-15,
McCLAIN COUNTY, OKLAHOMA**

JUNE 30, 2016

Audited by

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

BROKEN ARROW, OK

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
JUNE 30, 2016

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

October 28, 2016

The Honorable Board of Education
Purcell School District Number I-15
Purcell, McClain County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Purcell School District Number I-15, Purcell, McClain County, Oklahoma (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education to meet financial reporting requirements of the State of Oklahoma; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 from material misstatement.

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

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

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

As discussed in Note 1, the financial statements are prepared by the District, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determined, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the District as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows 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 the District, as of June 30, 2016, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

Broken Arrow, OK



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

October 28, 2016

The Honorable Board of Education
Purcell School District Number I-15
Purcell, McClain County, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Purcell School District Number I-15, Purcell, McClain County, Oklahoma (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2016, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

Broken Arrow, OK



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CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

October 28, 2016

The Honorable Board of Education
Purcell School District Number I-15
Purcell, McClain County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Purcell School District Number I-15, Purcell, McClain County, Oklahoma (District)'s, compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance 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, the District, 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, 2016.

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 Uniform Guidance, 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

Broken Arrow, OK

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2016

There were no prior year significant deficiencies.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Section 1 - Summary of Auditor's Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and a qualified opinion was issued 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 State Department of Education. The audit disclosed no instances of noncompliance which are material to the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which were material to the financial statements.
4. An unmodified opinion was issued on the compliance of major programs.
5. The audit disclosed no significant deficiencies in the internal controls over major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major are the Child Nutrition Programs (10.553, 10.555), which were clustered in determination and the IDEA-B, Flowthrough (84.027) and IDEA-B, Preschool (84.173), which were clustered in determination.
8. The dollar threshold used to determine between Type A and Type B programs was \$750,000.
9. The auditee was determined not to be a low-risk auditee.

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

NONE

Section 3 – Findings and questioned costs for federal awards:

NONE

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
 JUNE 30, 2016

	GOVERNMENTAL FUND TYPES				FIDUCIARY	ACCOUNT	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	FUND TYPES TRUST AND AGENCY FUNDS	GROUP GENERAL LONG-TERM DEBT	
<u>ASSETS</u>							
Cash	\$ 1,969,183	821,762	11,379	69,839	274,808		3,146,971
Amounts available in debt service						69,839	69,839
Amount to be provided for retirement of long-term debt						8,946,504	8,946,504
Total Assets	\$ 1,969,183	821,762	11,379	69,839	274,808	9,016,343	12,163,314
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Warrants payable	\$ 704,271	28,554					732,825
Funds held for school organizations					274,808		274,808
Long-term debt:							
Bonds payable						2,620,000	2,620,000
Capital leases						6,396,343	6,396,343
Total liabilities	704,271	28,554	0	0	274,808	9,016,343	10,023,976
Fund Equity:							
Cash fund balances	1,264,912	793,208	11,379	69,839	0	0	2,139,338
Total Liabilities and Fund Balance	\$ 1,969,183	821,762	11,379	69,839	274,808	9,016,343	12,163,314

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

INDEPENDENT SCHOOL DISTRICT NO. 1-15, McCLAIN COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
Revenues collected:					
Local sources	\$ 1,522,628	341,351		1,291,935	3,155,914
Intermediate sources	239,095				239,095
State sources	6,487,557	74,328		8	6,561,893
Federal sources	663,091	382,633			1,045,724
Interest earnings	4,630			213	4,843
Non-revenue receipts	103,887	4,596		534	109,017
Total revenues collected	<u>9,020,888</u>	<u>802,908</u>	<u>0</u>	<u>1,292,690</u>	<u>11,116,486</u>
Expenditures:					
Instruction	5,889,903	1,099			5,891,002
Support services	3,241,500	189,409	15,750		3,446,659
Operation of non-instructional services	90,110	525,324			615,434
Facilities acquisition & construction services		33,560	1,319,550		1,353,110
Other outlays :					
Debt service requirements				1,304,275	1,304,275
Reimbursement		55			55
Correcting entry	4,222				4,222
Total expenditures	<u>9,225,735</u>	<u>749,447</u>	<u>1,335,300</u>	<u>1,304,275</u>	<u>12,614,757</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(204,847)	53,461	(1,335,300)	(11,585)	(1,498,271)
Other financing sources (uses):					
Bond proceeds	<u>0</u>	<u>0</u>	<u>1,335,000</u>	<u>0</u>	<u>1,335,000</u>
Excess of revenues collected over (under) expenditures and other financing sources (uses)	(204,847)	53,461	(300)	(11,585)	(163,271)
Cash fund balances, beginning of year	<u>1,469,759</u>	<u>739,747</u>	<u>11,679</u>	<u>81,424</u>	<u>2,302,609</u>
Cash fund balances, end of year	<u>\$ 1,264,912</u>	<u>793,208</u>	<u>11,379</u>	<u>69,839</u>	<u>2,139,338</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I- 15, McCLAIN COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 1,317,723	1,317,723	1,522,628	204,905
Intermediate sources	210,850	210,850	239,095	28,245
State sources	6,573,462	6,573,462	6,487,557	(85,905)
Federal sources	619,631	619,631	663,091	43,460
Interest earnings			4,630	4,630
Non-revenue receipts			103,887	103,887
Total revenues collected	8,721,666	8,721,666	9,020,888	299,222
Expenditures:				
Instruction	6,597,509	6,597,509	5,889,903	707,606
Support services	3,503,726	3,503,726	3,241,500	262,226
Operation of non-instructional services	90,190	90,190	90,110	80
Other outlays:				
Correcting entry			4,222	(4,222)
Total expenditures	10,191,425	10,191,425	9,225,735	965,690
Excess of revenues collected over (under) expenditures	(1,469,759)	(1,469,759)	(204,847)	1,264,912
Cash fund balance, beginning of year	1,469,759	1,469,759	1,469,759	0
Cash fund balance, end of year	\$ 0	0	1,264,912	1,264,912

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

INDEPENDENT SCHOOL DISTRICT NO. I- 15, McCLAIN COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 290,815	290,815	341,351	50,536
State sources	67,861	67,861	74,328	6,467
Federal sources	341,207	341,207	382,633	41,426
Non-revenue receipts			4,596	4,596
Total revenues collected	<u>699,883</u>	<u>699,883</u>	<u>802,908</u>	<u>103,025</u>
Expenditures:				
Instruction	2,500	2,500	1,099	1,401
Support services	835,005	835,005	189,409	645,596
Operation of non-instructional services	568,565	568,565	525,324	43,241
Facilities acquisition & constr services	33,560	33,560	33,560	
Other outlays:				
Reimbursement			55	(55)
Total expenditures	<u>1,439,630</u>	<u>1,439,630</u>	<u>749,447</u>	<u>690,183</u>
Excess of revenues collected over (under) expenditures	(739,747)	(739,747)	53,461	793,208
Cash fund balances, beginning of year	<u>739,747</u>	<u>739,747</u>	<u>739,747</u>	<u>0</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>793,208</u>	<u>793,208</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 1,222,851	1,291,935	69,084
State sources		8	8
Interest earnings		213	213
Non-revenue receipts		534	534
Total revenues collected	<u>1,222,851</u>	<u>1,292,690</u>	<u>69,839</u>
Requirements:			
Bonds	1,285,000	1,285,000	
Coupons	19,275	19,275	
Total requirements	<u>1,304,275</u>	<u>1,304,275</u>	<u>0</u>
Excess of revenue collected over (under) expenditures	(81,424)	(11,585)	69,839
Cash fund balance, beginning of year	<u>81,424</u>	<u>81,424</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>69,839</u>	<u>69,839</u>

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of the Purcell Public Schools Independent District No. I-15 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

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

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

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

Governmental Fund Types

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

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

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds.

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting - cont'd

Co-op Fund – The co-op fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school districts. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs. The District did not maintain this fund during the 2015-16 school year.

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

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

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

Fiduciary Fund Types

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

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. None of these funds were maintained in 2015-16.

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

B. Fund Accounting – cont’d

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

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

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

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

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

Account Groups

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

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

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

Memorandum Only - Total Column

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting – cont'd

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

D. Budgets and Budgetary Accounting

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

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year.

E. Assets, Liabilities and Fund Equity

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

Investments – The District is allowed to invest in direct obligations of the United State's government and agencies ; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value. The District had no outstanding investments at June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Inventories – The value of consumable inventories at June 30, 2016, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is not presented.

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2015-16 fiscal year.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

2. CASH AND INVESTMENTS

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2016, was \$4,441,369. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – The District had no outstanding investments at June 30, 2016.

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

Credit risk – Investments – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Investments held by the District in investment pools (sweep accounts) are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The District does not have a formal policy limiting its exposure arising from concentration of investments.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

4. GENERAL LONG-TERM DEBT

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District’s voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years of the date of issue.

General long-term debt of the District consists of bonds payable and capital leases. Debt service requirements for bonds and judgments are paid solely from the fund balance and the future revenues of the debt service fund.

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2016:

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2015	\$ 2,520,000	7,745,553	10,265,553
Additions	1,335,000		1,335,000
Retirements	(1,235,000)	(1,349,210)	(2,584,210)
Balance, June 30, 2016	\$ 2,620,000	6,396,343	9,016,343

A brief description of the outstanding long-term debt at June 30, 2016, is set forth below:

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2015, original issue \$1,335,000, interest rate of 1.15%, due in one annual installment of \$1,335,000 due 8-1-17	1,335,000
Building Bonds, Series 2014, original issue \$1,285,000, interest rate of 0.75%, due in one annual installment of \$1,285,000 due 8-1-16	1,285,000

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

4. GENERAL LONG-TERM DEBT – cont'd	<u>Amount Outstanding</u>
<u>Capital Leases:</u>	
Lease revenue bonds for new School Project, dated 2006, and restructured in 2014, totaling \$5,649,000, administered by the McClain County Economic Development Authority, due in irregular annual principal and interest lease payments (see Note8)	\$ 4,750,200
Lease revenue bonds for new School Project, dated 2010, totaling \$2,780,000, administered by the McClain County Economic Development Authority, due in irregular annual principal and interest lease payments (see Note 8)	1,470,150
Lease purchase for a truck, dated 5-15-12, totaling \$27,649, due in monthly principal and interest installments of \$550, final payment due on 5-15-17	5,379
Lease purchase for land, dated 8-1-07, totaling \$357,776, due in annual principal and interest installments of \$33,560, final payment due on 2-1-22	<u>170,614</u>
Total	<u>\$ 9,016,343</u>

The annual debt service requirements for the retirement of the bonds and capital leases, including the payment of principal and interest are as follows:

Year Ending	Principal	Interest	Total
<u>June 30</u>	<u> </u>	<u> </u>	<u> </u>
2017	\$ 2,684,744	24,213	2,708,957
2018	2,785,208	13,202	28,554
2019	1,511,113	17,897	1,529,010
2020	1,972,832	7,528	1,980,360
2021	30,469	3,091	33,560
2022-2025	<u>31,977</u>	<u>1,583</u>	<u>33,560</u>
Total	<u>\$ 9,016,343</u>	<u>67,514</u>	<u>6,314,001</u>

Interest paid on general long-term debt during the 2015-16 fiscal year totaled \$34,188.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan

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

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2015-16 fiscal year, The District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN - cont'd

The District's total contributions for 2016, 2015 and 2014 were \$878,355, \$869,234, and \$839,796 respectively.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2016. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit www.ok.gov/TRS for all plan information.

GASB Statement 68 became effective for fiscal years beginning after June 15, 2014, and significantly changes pension accounting and financial reporting for governmental employers who participate in a pension plan, such as the System, and who prepare published financial statements on an accrual basis using Generally Accepted Accounting Principles. Since the District does not prepare and present their financial statements on an accrual basis, the net pension liability amount is not required to be presented on the audited financial statements. The amount of calculated pension liability for the District at June 30, 2014 (the latest information available) was \$554,014.

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. The School 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 it 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 school's losses for the last five years. 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 its loss fund in three years, it is

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

6. RISK MANAGEMENT – cont'd

returned to the District with no interest. The District is also a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

7. CONTINGENCIES

Federal Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, 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

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District.

8. LEASE REVENUE BONDS

Purcell Public Schools Project

On September 1, 2014, the McClain County Economic Development Authority issued \$5,649,000 of Educational Facilities Lease Revenue Bonds (Purcell Public Schools Project) Series 2014, to provide funds for the constructing, equipping, repairing and remodeling of school buildings, acquiring furniture, fixtures and equipment and acquiring and improving school sites for the benefit of Purcell School District. Also on September 1, 2014, the District, as lessor, entered into a ground

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NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

8. LEASE REVENUE BONDS – cont'd

Purcell Public Schools Project – cont'd

lease agreement, for certain district property, with the McClain County Economic Development Authority. In addition, the District entered into a sublease, as lessee, with the McClain County Economic Development Authority. The sublease calls for two (5) acquisition payments starting September 1, 2016, in addition to semiannual rental payments of \$1,500. These payments will be made out of bond funds, pursuant to the issuance of series bonds passed by vote on September 11, 2001. Purcell Public Schools will gain ownership to the capital improvements incrementally as each payment is made. These bonds are shown as general long-term debt on the combined statement assets, liabilities, and fund equity under bonds payable as each series of bonds is sold.

Purcell Public Schools Project (2)

On September 1, 2010, the McClain County Economic Development Authority issued \$2,780,000 of Educational Facilities Lease Revenue Bonds (Purcell Public Schools Project) Series 2010, to provide funds for the constructing, equipping, repairing and remodeling of school buildings, acquiring furniture, fixtures and equipment and acquiring and improving school sites for the benefit of Purcell School District. Also on September 1, 2010, the District, as lessor, entered into a ground lease agreement, for certain district property, with the McClain County Economic Development Authority. In addition, the District entered into a sublease, as lessee, with the McClain County Economic Development Authority. The sublease calls for two (8) acquisition payments starting September 1, 2011, in addition to semiannual rental payments of \$1,500. These payments will be made out of bond funds, pursuant to the issuance of series bonds passed by vote on March 3, 2010. Purcell Public Schools will gain ownership to the capital improvements incrementally as each payment is made. These bonds are shown as general long-term debt on the combined statement assets, liabilities, and fund equity under bonds payable as each series of bonds is sold.

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 JUNE 30, 2016

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 723,115	98,647	821,762
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$ 748	27,806	28,554
Fund Equity:			
Cash fund balances	<u>722,367</u>	<u>70,841</u>	<u>793,208</u>
 Total Liabilities and Fund Equity	 <u>\$ 723,115</u>	 <u>98,647</u>	 <u>821,762</u>

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	BUILDING FUND			CHILD NUTRITION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues Collected:						
Local sources	\$ 188,246	188,246	252,916	\$ 102,569	102,569	88,435
State sources			6,159	67,861	67,861	68,169
Federal sources				341,207	341,207	382,633
Interest earnings						
Non-revenue receipts			4,541			55
Total revenues collected	<u>188,246</u>	<u>188,246</u>	<u>263,616</u>	<u>511,637</u>	<u>511,637</u>	<u>539,292</u>
Expenditures:						
Instruction	2,500	2,500	1,099			
Support services	835,005	835,005	189,409			
Operation of non-instructional services				568,565	568,565	525,324
Facilities acquisition & construction services	33,560	33,560	33,560			
Other outlays:						
Reimbursement						55
Total expenditures	<u>871,065</u>	<u>871,065</u>	<u>224,068</u>	<u>568,565</u>	<u>568,565</u>	<u>525,379</u>
Excess of revenues collected over (under) expenditures	(682,819)	(682,819)	39,548	(56,928)	(56,928)	13,913
Cash fund balances, beginning of year	<u>682,819</u>	<u>682,819</u>	<u>682,819</u>	<u>56,928</u>	<u>56,928</u>	<u>56,928</u>
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>722,367</u>	<u>\$ 0</u>	<u>0</u>	<u>70,841</u>

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
 ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS
 JUNE 30, 2016

	HIGH SCHOOL TRUST BOND FUND
<u>ASSETS</u>	
Cash	\$ 11,379
	<hr style="border-top: 3px double black;"/>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Warrants payable	\$ 0
Fund Equity:	
Cash fund balances	11,379
	<hr style="border-top: 3px double black;"/>
Total Liabilities and Fund Equity	\$ 11,379
	<hr style="border-top: 3px double black;"/>

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES
 IN CASH FUND BALANCES - ALL CAPITAL PROJECTS FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	HIGH SCHOOL TRUST BOND FUND	FACILITIES TRUST BOND FUND	TOTAL
Revenues Collected:			
Total revenues	\$ 0	0	0
Expenditures:			
Support services	11,500	4,250	15,750
Facilities acquisition & construction services	898,800	420,750	1,319,550
Total expenditures	910,300	425,000	1,335,300
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(910,300)	(425,000)	(1,335,300)
Other financing sources (uses):			
Bond proceeds	910,000	425,000	1,335,000
Excess of revenues collected over (under) expenditures	(300)	0	(300)
Cash fund balances, beginning of year	11,679	0	11,679
Cash fund balances, end of year	\$ 11,379	0	11,379

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2016

	BALANCE 7-01-15	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-16
<u>ASSETS</u>					
Cash	\$ 244,541	658,014	0	627,747	274,808
<u>LIABILITIES</u>					
Funds held for school organizations:					
Athletics	\$ 21,305	96,347	(1,975)	89,380	26,297
Concessions	2,128	0		0	2,128
BOE account	4,828	3,089		5,761	2,156
General fund refund	0	122		122	0
Scholarship	1,967	0		1,967	0
Miscellaneous	3,059	7,904	585	8,207	3,341
HS band	11,468	5,161	500	16,093	1,036
Faculty account	106	0		0	106
HS choir	988	10,875		11,173	690
Coca Cola revenue	3,015	4,000		2,033	4,982
Key club	255	9,727	210	9,622	570
HS SOS	42	0	(42)	0	0
FCCLA	1,600	3,006		3,516	1,090
National honor society	1,685	7,650	(40)	7,715	1,580
Freshman	0	150	99	187	62
Sophomore	470	870		79	1,261
Juniors	1,399	13,739		12,345	2,793
Seniors	5,085	0		1,862	3,223
FFA	5,851	52,472		51,433	6,890
HS cheerleaders	6,802	39,337	(210)	42,688	3,241
HS TSA	2	834		700	136
Drama club	256	0		0	256
Spanish club	337	1,850		1,947	240
Student council	3,148	4,119	1,400	6,117	2,550
HS library memorial fund	85	5,029		3,724	1,390
Yearbook HS	5,402	12,111		12,607	4,906
SADD	57	0	(57)	0	0
Athletic fundraisers	25,794	94,968	3,188	88,979	34,971
Drug testing	316	1,700	(445)	1,571	0
Mama dragons	14,871	26,858	(3,213)	18,772	19,744
Intermediate choir	113	0		90	23
K-kids	844	4,010		3,698	1,156
Intermediate student senate	9	0		0	9
Intermediate library	834	11,221		10,892	1,163
Intermediate miscellaneous	1,779	45,854		36,467	11,166
Jr high miscellaneous	563	1,399		1,119	843
Jr high yearbook	2,211	3,778		3,389	2,600
Jr high cheerleaders	3,261	8,097		7,933	3,425
Jr high student council	1,359	824		960	1,223
Jr high FCCLA	2,661	11,748		13,192	1,217
Jr high band	45	0		0	45
Jr high library	1,589	6,673		5,290	2,972
Jr high TSA	866	1,004		535	1,335
Elementary	12,156	9,613		9,862	11,907
Elementary ES/IS Library	833	8,017		6,948	1,902
Elementary PTO	22,700	35,588		24,822	33,466
Preschool/daycare	69,354	86,238		84,369	71,223
Educ. station after school prog	1,043	22,032		19,581	3,494
Total Liabilities	\$ 244,541	658,014	0	627,747	274,808

INDEPENDENT SCHOOL DISTRICT NO. 1-15, McCLAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/15	Revenue Collected	Total Expenditures	Balance at 6/30/16
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060a	S060A140696	\$ 39,421	0	39,421	39,421	0
<u>Passed Through State Department of Education:</u>							
Title I, Basic Program	84.010		268,716		262,102	262,102	
Title II, Part A	84.367		55,338		51,391	51,391	
Title III, Part A	84.365		14,275		14,275	14,275	
<u>*Special Education Programs:</u>							
IDEA-B Flowthrough	84.027		276,520		274,982	274,982	
IDEA-B Preschool	84.173		6,570		6,570	6,570	
Sub Total			<u>621,419</u>	<u>0</u>	<u>609,320</u>	<u>609,320</u>	<u>0</u>
<u>Passed Through State Department of Career & Tech. Education:</u>							
Carl Perkins Grant 2014-15 - Note	84.048			14,350	14,350		
Sub Total			<u>0</u>	<u>14,350</u>	<u>14,350</u>	<u>0</u>	<u>0</u>
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through State Department of Education</u>							
<u>*Child Nutrition Programs:</u>							
School breakfast program	10.553				91,038	91,038	
National school lunch program	10.555				291,595	291,595	
Sub Total					<u>382,633</u>	<u>382,633</u>	
<u>Passed Through Department of Human Services:</u>							
<u>*Non-cash assistance - commodities - Note 1</u>							
National school lunch program	10.555				28,292	28,292	
Total Federal Assistance			<u>\$ 660,840</u>	<u>14,350</u>	<u>1,074,016</u>	<u>1,059,666</u>	<u>0</u>

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

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2016. This information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements except as noted in Note 3. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

Note 3 - Non-Monetary Assistance - Commodities received by the District in the amount of \$25,537 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements

* Major programs

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
 FOR THE YEAR ENDED JUNE 30, 2016

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Vaughn Insurance - Western Surety Co.	Treasurer	69398137	\$ 350,000	11/01/15 - 11/01/16
	Payroll Clerk	70768674	100,000	07/01/15 - 07/01/16
	Encumbrance Clerk	69398132	5,000	11/01/15 - 11/01/16
	Activity Fund	69398132	5,000	11/01/15 - 11/01/16
	Board Minutes Clerk	69398132	5,000	11/01/15 - 11/01/16
Old Republic Surety Co.	Superintendent	W150132349	100,000	07/01/15 - 07/01/16

INDEPENDENT SCHOOL DISTRICT NO. I-15, McCLAIN COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2015 TO JUNE 30, 2016

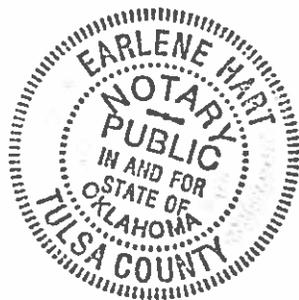
State of Oklahoma)
) ss
County of Tulsa)

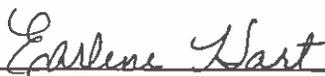
The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Purcell Public Schools for the audit year 2015-16.

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

By  _____
Authorized Agent

Subscribed and sworn to before me
This 28th day of October, 2016



 _____
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2020
Commission No. 00008621



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

P.O. BOX 1310 • 101 N. MAIN ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

October 28, 2016

Mr. Jason Midkiff, Supt.
Purcell Public Schools
919 North Ninth Street
Purcell, Oklahoma 73080

Dear Mr. Midkiff:

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

No Audit Exceptions

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP