FINANCIAL STATEMENTS – REGULATORY BASIS AND REPORTS OF INDEPENDENT AUDITOR

G-003, DISCOVERY SCHOOLS OF TULSA
TULSA, OKLAHOMA

JUNE 30, 2011

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

G-003, DISCOVERY SCHOOLS OF TULSA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2011

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G-003, DISCOVERY SCHOOLS OF TULSA
JUNE 30, 2011

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Discovery Schools of Tulsa
Tulsa, Oklahoma

We have audited the accompanying fund type and account group financial statements of Discovery Schools of Tulsa No. G-003 (the School), Tulsa County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the School's management. 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 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 combined financial statements – regulatory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements – regulatory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement – regulatory basis presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States, although not reasonably determinable, are presumed to be material.

As also discussed in Note 1, the combined financial statements – regulatory basis referred to above do not include the general fixed assets account group. The amount that should be recorded in the general fixed assets account group is not known. If the general fixed assets account group had been included, the amount of the adjustments to the combined financial statements – regulatory basis is not known, but presumed to be material.

In our opinion, because the School's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, and because of the omission of the general fixed assets account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph do not present fairly, the financial position of the School as of June 30, 2011, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

However, in our opinion, except for the omission of the general fixed assets account group as discussed in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of the School as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2012, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements within the combined financial statements. The combining fund statements and schedules and other schedules as listed in the table of contents under other supplementary information are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the combined financial statements – regulatory basis of the School taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements – regulatory basis. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements – regulatory basis and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements – regulatory basis taken as a whole.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 13, 2012

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

The Honorable Board of Education
Discovery Schools of Tulsa
Tulsa, Oklahoma

We have audited the combined financial statements – regulatory basis of Discovery Schools of Tulsa (the School) No. G-003, Tulsa, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated March 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain immaterial matters that we reported to management of the School in a separate letter dated March 13, 2012.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 13, 2012

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Board of Education
Discovery Schools of Tulsa
Tulsa, Oklahoma

Compliance

We have audited Discovery Schools of Tulsa (the School) No. G-003, Tulsa, Oklahoma's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2011. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 School's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School's complied, in all material respects, with the 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, 2011.

Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 School'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board, management, the Oklahoma State Department of Education and the Federal Clearinghouse, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 13, 2012

G-003, DISCOVERY SCHOOLS OF TULSA
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2011

There were no prior year reportable conditions.

G-003, DISCOVERY SCHOOLS OF TULSA
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

Section 1 - Summary of Auditor's Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.

2. The audit disclosed no instances of noncompliance which are material to the financial statements.

3. The audit disclosed no significant deficiencies in the internal controls over financial reporting.

4. An unqualified 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 State Fiscal Stabilization Funds (84.394) and Education JOBS Fund (84.410), which were not clustered.

8. The dollar threshold used to determine between Type A and Type B programs was $300,000.

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

G-003, DISCOVERY SCHOOLS OF TULSA
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
JUNE 30, 2011

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	
	GENERAL FUND	AGENCY FUNDS	TOTALS (MEMORANDUM ONLY)
ASSETS			
Cash	$ 638,833	14,040	652,873
LIABILITIES AND FUND EQUITY			
Liabilities:			
Warrants payable	$ 340,019		340,019
Encumbrances	279,089		279,089
Funds held for school organizations		14,040	14,040
Total liabilities	619,108	14,040	633,148
Fund Equity:			
Cash fund balances	19,725	0	19,725
Total Liabilities and Fund Equity	$ 638,833	14,040	652,873

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

G-003, DISCOVERY SCHOOLS OF TULSA
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	
	GENERAL FUND	INSURANCE RECOVERY FUNDS	TOTALS (MEMORANDUM ONLY)
Revenues Collected:			
Local sources	$ 217,105	630,520	847,625
State sources	3,720,817		3,720,817
Federal sources	1,004,990		1,004,990
Interest	75		75
Non-revenue receipts (charter school reimbursement)	6,727		6,727
Total revenues collected	4,949,714	630,520	5,580,234
Expenditures:			
Instruction	2,108,690		2,108,690
Support services	2,395,426		2,395,426
Operation of non-instructional services	355,228		355,228
Facilities acquisition & construction services	5,754	630,520	636,274
Other outlays:			
Correcting entry	2,032		2,032
Repayments	6,624		6,624
Bank fees and cash charges	1,749		1,749
Total expenditures	4,875,503	630,520	5,506,023
Excess of revenues collected over (under) expenditures before other financing sources (uses)	74,211	0	74,211
Other financing sources (uses):			
Carryover from Dove (Tulsa) transfer in	14,883		14,883
Adjustment to prior year encumbrances	39,798		39,798
Total other financing sources (uses)	54,681	0	54,681
Excess of revenue collected over (under) expenditures	128,892	0	128,892
Cash fund balance, beginning of year	(109,167)	0	(109,167)
Cash fund balance, end of year	$ 19,725	0	19,725

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

G-003, DISCOVERY SCHOOLS OF TULSA
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	$ 4,173	173,835	217,105	43,270
State sources	3,686,810	3,686,810	3,720,817	34,007
Federal sources	200,801	1,156,535	1,004,990	(151,545)
Interest earnings			75	75
Non-revenue receipts (charter school reimbursement)	17,383	17,383	6,727	(10,656)
Total revenues collected	3,909,167	5,034,563	4,949,714	(84,849)
Expenditures:				
Instruction	1,034,936	2,160,332	2,108,690	51,642
Support services	2,395,426	2,395,426	2,395,426	
Operation of non-instructional services	355,228	355,228	355,228	
Facilities acquisition & construction services	5,754	5,754	5,754	
Other outlays:				
Correcting entry	2,032	2,032	2,032	
Repayments	6,624	6,624	6,624	
Bank fees and cash charges			1,749	(1,749)
Total expenditures	3,800,000	4,925,396	4,875,503	49,893
Excess of revenues collected over (under) expenditures before other financing sources (uses)	109,167	109,167	74,211	(34,956)
Other financing sources (uses):				
Carryover from Dove (Tulsa) transfer in			14,883	14,883
Adjustments to prior year encumbrances			39,798	39,798
Total other financing sources (uses)	0	0	54,681	54,681
Excess of revenues collected over (under) expenditures	109,167	109,167	128,892	19,725
Cash fund balance, beginning of year	(109,167)	(109,167)	(109,167)	0
Cash fund balance, end of year	$ 0	0	19,725	19,725

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of the G-003, Discovery Schools of Tulsa (the "School") have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the School's accounting policies are described below.

A. Reporting Entity

The School 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 School 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 School is the Board of Directors composed of elected members. The appointed director is the executive officer of the School.

In evaluating how to define the School, 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 School and/or its citizens, or whether the activity is conducted within the geographic boundaries of the School 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 School is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the School's reporting entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

The School 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 school 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 School's building, co-op and child nutrition funds. The School did not maintain any special revenue funds during the 2010-11 fiscal year.

Building Fund – The building fund consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing, or maintaining school buildings and for purchasing furniture, equipment and computer software to be used on or for school 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.

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 Schools 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 Schools. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs.

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

Debt Service Fund – The debt service fund is the School's sinking fund and is used to account for the accumulation of financial resources for the payment of general long-term (including judgments) debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments. The School did not maintain this fund during the 2010-11 fiscal year.

Capital Projects Fund – The capital projects fund is the School'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. The School did not maintain this fund during the 2010-11 fiscal year.

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 School. The terms "non-expendable" and "expendable" refer to whether or not the School is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the School holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The School only maintained an insurance recovery fund during the 2010-11 fiscal year.

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

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 School.

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 School-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 School, 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.

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 School 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 accounting principles generally accepted in the United States, 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.

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 School is required by state law to prepare an annual budget.

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

The 2010-11 Estimate of Needs was amended by supplemental appropriations as follows:

Fund	Total
General	$ 1,125,396

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 School. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is not presented in the financial statements since the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

E. Assets, Liabilities and Fund Equity

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

Investments – The School is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the School. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2011, is not material to the combined financial statements.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the School 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. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

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 School, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

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

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

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the School and available to the School for its use.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

Intermediate Revenues - Revenues from intermediate sources are the amounts of money from funds collected by an intermediate administrative unit, or a political subdivision between the School and the state, and distributed to Schools 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 Schools based on information accumulated from the Schools.

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.

The School 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 School'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 pass through from another government, such as the state.

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

The majority of the federal revenues received by the School are apportioned to the general fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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 School, 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.

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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 School 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 2010-11 fiscal year.

2. CASH AND INVESTMENTS

The School'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 School.

Cash – The School's bank balance of deposits and cash pools at June 30, 2011 was $521,178. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The School'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 School's third party agent in the School's name.

Investments – The School did not maintain any investments during the 2010-11 fiscal year.

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 School 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.

2. CASH AND INVESTMENTS – cont'd

Credit risk – Investments – Credit risk is the risk that the issuer or other counterparty to and investment will not fulfill its obligations. Investments held by the School 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 School 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, 2011.

4. GENERAL LONG-TERM DEBT

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

General long-term debt of the School consists of a capital lease.

The following is a summary of the long-term debt transactions of the School for the year ended June 30, 2011:

	Capital Lease
Balance, July 1, 2010	$ 37,961
Retirements	(15,827)
Balance, June 30, 2011	$ 22,134

A brief description of the outstanding long-term debt at June 30, 2011, is set forth below:

	Amount Outstanding
Capital Leases:	
Lease purchase for equipment, dated 9-2-09, totaling $77,670, due in monthly principal and interest installments of $1576, final payment due 9-1-12	$22,134

4. GENERAL LONG-TERM DEBT – cont'd

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

Year Ending June 30	Principal	Interest	Total
2012	$ 17,484	1,427	18,911
2013	4,650	78	4,728
Total	$ 22,134	1,505	23,639

Interest paid on general long-term debt incurred during the 2010-11 fiscal year totaled $3,084.

5. EMPLOYEE RETIREMENT SYSTEM AND PLAN

The School has chosen not to participate in the Oklahoma Teachers Retirement System.

As of October 1, 2009 the School offered a 401K plan to its employees which is a single-employer plan administered by Dove Science Academy. The ING life insurance and annuity company is the insurance carrier for the plan. A copy of the full annual report may be obtained by writing to Dove Science Academy, 919 NW 23rd St., Oklahoma City, OK, 73106, or by calling (405) 524-9762.

Before year-end, the School closed out the ING account and no longer offers a retirement plan to its employees. All balances in ING were transferred to individual employee accounts or paid out to employees.

6. RISK MANAGEMENT

The School 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 School 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.

7. CONTINGENCIES

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the School during the 2010-11 fiscal year. The revised OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than $500,000 in federal awards.

Litigation

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

Dove (Tulsa) Consolidation

Effective July 1, 2010, Dove Science (Tulsa) was consolidated with Discovery Schools of Tulsa. All revenues received after July 1, 2010, available cash on hand, all previous liabilities, debt incurred, and any contracts pending by Dove Science (Tulsa) become the property of Discovery Schools of Tulsa.

G-003, DISCOVERY SCHOOLS OF TULSA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

	BALANCE 7-01-10	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-11
ASSETS					
Cash	$ 28,215	74,224	0	88,399	14,040
LIABILITIES					
Funds held for school organizations:					
Discovery activity programs	$ 11,085	46,432		51,548	5,969
Dove (Tulsa) activity programs	17,130	27,792		36,851	8,071
Total liabilities	$ 28,215	74,224	0	88,399	14,040

G-003, DISCOVERY SCHOOLS OF TULSA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Program or Award Amount	Balance at 7-1-10	Revenue Collected	Total Expenditures	Balance at 6-30-11
Passed Through State Department of Education:						
Title I, Basic Program	84.010	$ 207,216		186,036	186,036	
Title I, Basic Program 2009-10 - Note	84.010		61,738	61,738		
Title I, ARRA	84.389	34,390			34,390	34,390
Title I, ARRA 2009-10 - Note	84.389		40,921	40,921		
Title II, Part A	84.367	22,973			22,695	22,695
Title II, Part A 2009-10 - Note	84.367		4,307	4,307		
IDEA-B Special Education Flowthrough	84.027	129,533		88,013	129,533	41,520
IDEA-B Special Education Flowthrough 2009-10 - Note	84.027		83,906	83,906		
IDEA-B Special Education Flowthrough ARRA	84.391	22,703			22,703	22,703
IDEA-B Special Education Flowthrough ARRA 2009-10 - Note	84.391		79,069	79,069		
IDEA-B Special Education Preschool	84.173	747		747	747	
IDEA-B Special Education Preschool 2009-10 - Note	84.173		516	516		
IDEA-B Special Education Preschool ARRA 2009-10 - Note	84.392		914	914		
*State Fiscal Stabilization Funds ARRA	84.394	205,477		205,477	205,477	
*Education JOBS Fund	84.410	134,446		78,835	134,446	55,611
Sub-Total		757,485	271,371	830,479	736,027	176,919
Passed Through State Department of Education:						
*Child Nutrition Program						
School Breakfast Program	10.553			22,544	22,544	
National School Lunch Program	10.555			151,966	151,966	
Sub-Total				174,510	174,510	
Totals		$ 757,485	271,371	1,004,989	910,537	176,919

*Major Program

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

G-003, DISCOVERY SCHOOLS OF TULSA
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2011

BONDING COMPANY	POSITION COVERED	POLICY NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES

No surety bonds were presented for the audit.

G-003, DISCOVERY SCHOOLS OF TULSA
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2010 TO JUNE 30, 2011

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 Discovery Schools of Tulsa for the audit year 2010-11.

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

By ______________________________
Authorized Agent

Subscribed and sworn to before me
This 12th day of March, 2012

____
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2012
Commission No. 00008621