

Lone Grove School District I-32
Carter County, Oklahoma

Financial Statements
Year End June 30, 2013

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Carter County, Oklahoma
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June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying fund type and account group financial statements of Lone Grove School District I-32, Carter County, Oklahoma, as of and for the year ended June 30, 2013, which collectively comprise the District's regulatory financial statements as listed in the table of contents.

Management's Responsibility of the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and

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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 Accepting Accounting Principles

As discussed in Note 1, the financial statements are prepared by Lone Grove School District I-32, Carter County, Oklahoma, on the basis of the financial reporting provisions of Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Lone Grove School District I-32, Carter County, Oklahoma as of June 30, 2013, the changes in its financial position for the year then ended.

Basis for Qualified Opinion on General Fixed Asset Account Group

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

Qualified Opinion

In our opinion, except for the effects of the matters described in the “Basis for Qualified Opinion on General Fixed Asset Account Group” paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund equity arising from regulatory basis transactions of each fund type and account group of Lone Grove School District I-32, Carter County, Oklahoma, as of June 30, 2013, and the revenues collected and expenses paid and budgetary results for the year then ended on the basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lone Grove School District I-32 Carter County, Oklahoma financial statements as a whole. The accompanying Combining Schedule of Changes in Cash Balances – Regulatory Basis – Activity Funds is presented for purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purpose of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

The information in the additional information section of the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2014, on our consideration of Lone Grove School District I-32 Carter County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to express an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Lone Grove School District I-32 Carter County, Oklahoma's internal control over financial reporting and compliance.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
March 3, 2014

Lone Grove School District I-32
Carter County, Oklahoma
Combined Statement of Assets, Liabilities and Fund Equity
Regulatory Basis – All Governmental Fund Type and Account Groups
June 30, 2013

ASSETS	Governmental Fund Types				Fiduciary	Account	Total
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Trust and Agency	Group General Long Term Debt	(memorandum only - Note 1) June 30, 2013
Cash	\$ 1,370,245	\$ 1,761,384	\$ 984,127	\$ 331,249	\$ 212,486	\$ -	\$ 4,659,491
Amount available in debt service fund	-	-	-	-	-	984,127	984,127
Amount to be provided for :							
Retirement of general long term debt	-	-	-	-	-	1,890,873	1,890,873
Capital leases	-	-	-	-	-	4,214,384	4,214,384
Total Assets	<u>\$ 1,370,245</u>	<u>\$ 1,761,384</u>	<u>\$ 984,127</u>	<u>\$ 331,249</u>	<u>\$ 212,486</u>	<u>\$ 7,089,384</u>	<u>\$ 11,748,875</u>
LIABILITIES AND FUND EQUITY							
Liabilities:							
Warrants payable	\$ 886,984	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 886,984
Due to others	-	-	-	-	212,486	-	212,486
Capital leases payable	-	-	-	-	-	4,214,384	4,214,384
General obligation bonds payable	-	-	-	-	-	2,875,000	2,875,000
Total Liabilities	<u>886,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,486</u>	<u>7,089,384</u>	<u>8,188,854</u>
Fund Equity:							
Undesignated	<u>483,261</u>	<u>1,761,384</u>	<u>984,127</u>	<u>331,249</u>	<u>-</u>	<u>-</u>	<u>3,560,021</u>
Total Cash Fund Balances	<u>483,261</u>	<u>1,761,384</u>	<u>984,127</u>	<u>331,249</u>	<u>-</u>	<u>-</u>	<u>3,560,021</u>
Total Liabilities and Fund Equity	<u>\$ 1,370,245</u>	<u>\$ 1,761,384</u>	<u>\$ 984,127</u>	<u>\$ 331,249</u>	<u>\$ 212,486</u>	<u>\$ 7,089,384</u>	<u>\$ 11,748,875</u>

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

Lone Grove School District I-32
Carter County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund Balances
Regulatory Basis – All Governmental Fund Type
For the Year Ended June 30, 2013

	Governmental Fund Types				Total (memorandum only - Note 1) June 30, 2013
	General	Special Revenue	Debt Service	Capital Projects	
Revenues collected:					
Local sources	\$ 1,651,845	\$ 194,966	\$ 981,645	\$ 7,835	\$ 2,836,291
Intermediate sources	295,646	-	-	-	295,646
State sources	6,541,423	-	-	-	6,541,423
Federal sources	1,136,044	-	-	-	1,136,044
Total Revenues Collected	<u>\$ 9,624,958</u>	<u>\$ 194,966</u>	<u>\$ 981,645</u>	<u>\$ 7,835</u>	<u>\$ 10,809,404</u>
Expenditures paid:					
Instruction	\$ 6,519,007	\$ -	\$ -	\$ -	\$ 6,519,007
Support services	3,218,816	645,561	-	-	3,864,377
Non-Instructional services	488,306	-	-	-	488,306
Capital outlay	-	44,663	-	1,588,244	1,632,907
Debt service:					
Principal payments	-	-	895,000	-	895,000
Interest and fiscal agent fees	-	-	79,156	-	79,156
Total expenditures paid	<u>\$ 10,226,129</u>	<u>\$ 690,224</u>	<u>\$ 974,156</u>	<u>\$ 1,588,244</u>	<u>\$ 13,478,753</u>
Excess of revenues collected over (under) expenditures paid	\$ (601,171)	\$ (495,258)	\$ 7,489	\$ (1,580,409)	\$ (2,669,349)
Excess of revenues collected and other sources over (under) expenditures paid and other uses	\$ (601,171)	\$ (495,258)	\$ 7,489	\$ (1,580,409)	\$ (2,669,349)
Cash fund balances, beginning of year	<u>1,084,432</u>	<u>2,256,642</u>	<u>976,638</u>	<u>1,911,658</u>	<u>6,229,370</u>
Cash fund balances, end of year	<u>\$ 483,261</u>	<u>\$ 1,761,384</u>	<u>\$ 984,127</u>	<u>\$ 331,249</u>	<u>\$ 3,560,021</u>

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

Lone Grove School District I-32
Carter County, Oklahoma

Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund Balances – Budget and Actual
Regulatory Basis – Budgeted Governmental Fund Types
For the Year Ended June 30, 2013

	General Fund				Building Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
Beginning cash fund balances - Budgetary basis	1,082,328	\$ 1,082,328	\$ 1,084,432	\$ 2,104	\$ 2,257,507	\$ 2,257,507	\$ 2,256,642	\$ (865)
Revenues collected:								
Local sources	\$ 1,446,051	\$ 1,446,051	\$ 1,651,845	\$ 205,794	\$ 161,199	\$ 161,199	\$ 194,966	\$ 33,767
Intermediate sources	241,574	241,574	295,646	54,072	-	-	-	-
State sources	6,518,972	6,518,972	6,541,423	22,451	-	-	-	-
Federal sources	<u>1,252,721</u>	<u>1,252,721</u>	<u>1,136,044</u>	<u>(116,677)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues Collected	<u>\$ 9,459,318</u>	<u>\$ 9,459,318</u>	<u>\$ 9,624,958</u>	<u>\$ 165,640</u>	<u>\$ 161,199</u>	<u>\$ 161,199</u>	<u>\$ 194,966</u>	<u>\$ 33,767</u>
Expenditures paid:								
Instruction	\$ 6,600,000	\$ 6,600,000	\$ 6,519,007	\$ 80,993	\$ -	\$ -	\$ -	\$ -
Support services	2,825,000	2,825,000	3,218,816	(393,816)	700,000	700,000	645,561	54,439
Non-Instructional services	459,999	459,999	488,306	(28,307)	-	-	-	-
Capital outlay	-	-	-	-	1,718,706	1,718,706	44,663	1,674,043
Other outlays	<u>656,647</u>	<u>656,647</u>	<u>-</u>	<u>656,647</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures paid	<u>\$ 10,541,646</u>	<u>\$ 10,541,646</u>	<u>\$ 10,226,129</u>	<u>\$ 315,517</u>	<u>\$ 2,418,706</u>	<u>\$ 2,418,706</u>	<u>\$ 690,224</u>	<u>\$ 1,728,482</u>
Excess of revenues collected over (under) expenditures paid	<u>\$ (1,082,328)</u>	<u>\$ (1,082,328)</u>	<u>\$ (601,171)</u>	<u>\$ 481,157</u>	<u>\$ (2,257,507)</u>	<u>\$ (2,257,507)</u>	<u>\$ (495,258)</u>	<u>\$ 1,762,249</u>
Ending cash fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 483,261</u>	<u>\$ 483,261</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,761,384</u>	<u>\$ 1,761,384</u>

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

Lone Grove School District I-32
Carter County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund
Balances – Budget and Actual
Regulatory Basis – Budgeted Governmental Fund Types
For the Year Ended June 30, 2013

	Debt Service Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning cash fund balances - Budgetary basis	\$ 40,470	\$ 40,470	\$ 976,638	\$ 936,168
Revenues collected:				
Local sources	<u>\$ 930,102</u>	<u>930,102</u>	<u>981,645</u>	<u>51,543</u>
Total Revenues Collected	<u>\$ 930,102</u>	<u>\$ 930,102</u>	<u>\$ 981,645</u>	<u>\$ 51,543</u>
Expenditures paid:				
Debt service:				
Principal payments	\$ 925,000	\$ 925,000	\$ 895,000	\$ 30,000
Interest and fiscal agent fees	<u>45,572</u>	<u>45,572</u>	<u>79,156</u>	<u>(33,584)</u>
Total Expenditures paid	<u>\$ 970,572</u>	<u>\$ 970,572</u>	<u>\$ 974,156</u>	<u>\$ (3,584)</u>
Excess of revenues collected over (under) expenditures paid	<u>\$ (40,470)</u>	<u>\$ (40,470)</u>	<u>\$ 7,489</u>	<u>\$ 47,959</u>
Ending cash fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 984,127</u>	<u>\$ 984,127</u>

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies

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

A. The Reporting Entity

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

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

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

B. Fund Accounting

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

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

Funds are classified into two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

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

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

Special Revenue Fund - The special revenue fund consists of the District's Building Fund. The Building fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

B. Fund Accounting – (continued)

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

Fiduciary Fund Types

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

Account Groups

Account groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds. The District does not include a general fixed-assets account group.

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. The district does not have any long-term debt.

General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the school district. The District does not maintain the fixed asset records necessary to account for this account group.

Memorandum Only - Total Column

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

C. Basis of Accounting and Presentation

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

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

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

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types.

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

Noncash Transactions - The District received federal food commodities in the amount of \$28,989. In addition, the State of Oklahoma paid approximately \$73,453 directly to the teacher retirement fund on behalf of the District's employees.

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

D. Budgets and Budgetary Accounting

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

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

E. Assets Liabilities and Fund Equity

Investment - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policies are governed by *Oklahoma Statutes*. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, banks and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal depository insurance.

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

E. Assets Liabilities and Fund Equity – (continued)

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

Inventories - The value of consumable inventories at June 30, 2013, is not material to the financial statements.

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

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

Fund Balance - Fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

F. Revenue, Expenses and Expenditures

State Revenues - Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts. Approximately 68% of the District's general fund revenue comes from state sources.

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

1. Summary of Significant Accounting Policies – (continued)

F. Revenue, Expenses and Expenditures – (continued)

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

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

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

All other interfund transactions, except quasi-external transactions which are reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers.

2. Cash

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. As of June 30, 2013, cash deposits were fully insured or collateralized by a pledging bank's agent in the District's name.

Lone Grove School District I-32
 Carter County, Oklahoma
 Notes to Financial Statements
 For the Year Ended June 30, 2013

3. General Long Term Debt

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

General long-term debt of the District consists of bonds payable, and capital leases. Debt service requirements for bonds are payable solely from fund balance and future revenues of the debt service fund. The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Bonds Payable	\$ 3,770,000	\$ -	\$ 895,000	\$ 2,875,000
Capital Lease Obligations	<u>5,466,108</u>	<u>3,600,000</u>	<u>4,851,724</u>	<u>4,214,384</u>
	<u>\$ 9,236,108</u>	<u>\$ 3,600,000</u>	<u>\$ 5,746,724</u>	<u>\$ 7,089,384</u>

General Obligation Bonds

A brief description of the outstanding general obligations bond issues at June 30, 2013, is set forth below:

	<i>Amount Outstanding</i>
Independent School District, I-32 School Building Series 2012-F, original issue \$1,050,000, interest rate 0.875% to 0.500 % due with annual installment of \$525,000, with a final installment of \$525,000 due 6/1/2015	\$ 1,050,000
Independent School District, I-32 School Building Bonds of 2010 (Series C), original issue \$850,000, interest rates from 1.7% to 2.75% due in annual installments of \$100,000 to \$250,000 with a final payment of \$250,000 due 3/1/2016	750,000
Independent School District, I-32 School Building Bonds of 2010 (Series D), original issue \$550,000, interest rates from 1.7% to 1.35% due in annual installments of \$150,000 to \$200,000 with a final payment of \$200,000 due 11/1/2015	550,000

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

3. General Long Term Debt (continued)

Independent School District, I-32 School Building Bonds of 2010 (Series D), original issue \$550,000, interest rates from 1.7% to 1.35% due in annual installments of \$150,000 to \$200,000 with a final payment of \$200,000 due 11/1/2015	550,000
Independent School District, I-32 School Building Bonds of 2011 (Series E), original issue \$525,000, interest rates from 1.9% to 2.15% due in annual installments of \$125,000 to \$200,000 with a final payment of \$200,000 due 2/1/2016	525,000
	\$ 2,875,000

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

<i>Year Ended June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2014	\$ 1,050,000	\$ 39,419	\$ 1,089,419
2015	1,175,000	25,950	1,200,950
2016	650,000	114,000	764,000
Total	\$ 2,875,000	\$ 179,369	\$ 3,054,369

Interest expense on general long-term debt incurred during the current year totaled \$76,606.

Subsequent to year end the District issued \$220,000 of bonds, leaving a remaining balance of \$4,235,000 of bonds authorized but not issued.

Capital Leases

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

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

3. General Long-Term Debt (continued)

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

	Stated Interest <u>Rate</u>	Present Value of Remaining Lease Payments <u>June 30, 2013</u>
Land	4.600%	\$ 89,384
Equipment	4.250%	525,000
Gynasium	1.960%	<u>3,600,000</u>
		<u>\$ 4,214,384</u>

Future minimum lease payments on these leases are as follows:

<u><i>Year Ended June 30,</i></u>	<u><i>Amount Due</i></u>
2014	\$ 568,641
2015	1,077,485
2016	682,845
2017	670,000
2018	690,000
2019 - 2021	<u>764,929</u>
	4,453,900
Less: Interest	<u>(239,516)</u>
Total	<u>\$ 4,214,384</u>

4. Employee Retirement System

Plan Description - The District participates in the state-administered Teachers' Retirement System of Oklahoma (the "System"), which is a cost-sharing, multiple-employer public employee retirement system (PERS). The administration, benefits, and funding of the System are governed by Article XVII, Section 70 of the Oklahoma Statutes. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152.

Lone Grove School District I-32
Carter County, Oklahoma
Notes to Financial Statements
For the Year Ended June 30, 2013

4. Employee Retirement System (continued)

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 required contribution for the participating members is 7% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions. For the 2013 fiscal year, the District contributed 9.5%. The District is allowed to make the required contributions on behalf of participating members. In addition, if a member's salary is paid in part by federal funds, the contribution on that portion of salary must be matched by the District at a rate of 8%.

The District's total contributions for 2013, 2012 and 2011 were approximately \$622,057, \$604,627 and \$569,400, respectively equal to the required contribution for the year. These contributions include the District's statutory contribution and the federal match.

5. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

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

6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from prior year and settlements have not exceeded coverage in the past three years.

Lone Grove School District I-32
Carter County, Oklahoma
Supplemental Schedule Combining Schedule of Changes in Cash Balances
Regulatory Basis- Activity Funds
For the Year Ended June 30, 2013

	BEGINNING			ENDING
	BALANCE	RECEIPTS	CHECKS	BALANCE
Athletics	\$ 16,950	\$ 82,760	\$ 88,605	\$ 11,105
Concessions	11,501	4,496	5,457	10,540
FFA	2,239	56,132	58,093	278
FHA	2,117	1,161	2,103	1,175
Music	1,179	40,403	40,600	982
Library	3,729	1,638	1,638	3,729
Boys Golf	214	3,946	2,910	1,250
Intermediate	22,335	47,469	43,045	26,759
High School	19,747	39,076	34,836	23,987
Junior High Cheerleaders	2,203	8,139	7,734	2,608
Art	1,290	11,339	12,267	362
Cheerleaders	4,670	12,323	12,636	4,357
Scholarship	7,200	3,500	2,500	8,200
Band	2,261	43,862	42,892	3,231
Intermediate Science	3,426	7,197	7,597	3,026
Clearing Account	-	10,894	10,894	-
HS Food Pantry	413	-	60	353
Key Club	-	1,303	1,078	225
Middle School	13,185	33,849	33,082	13,952
Speech	44	320	300	64
Student Council	2,314	2,529	3,693	1,150
Color Guard	5	1,400	1,404	1
Spanish	528	-	-	528
Interest	11,990	6,683	9,180	9,493
Miscellaneous	2	-	-	2
Elementary PE	140	4,308	3,586	862
MS Newspaper	545	586	734	397
Kindergarten Snack	362	6,315	6,117	560
4 Year Old	2,658	3,531	5,591	598
Disaster Relief	7,283	-	471	6,812
Lunch	-	160,489	160,489	-
Primary	25,856	58,918	66,611	18,163
Lone Grove Parents in Action	6,094	2,465	2,543	6,016
Middle School Builders Club	799	3,825	2,900	1,724
High School Yearbook	4,355	15,171	15,953	3,573
National Honor Society	767	7,779	8,087	459
First Grade	284	4,859	4,000	1,143
High School Academic Team	210	-	-	210
Middle School Academic Team	333	105	274	164
Childrens Honor Choir	800	5,760	4,838	1,722
Primary Library	1,966	10,219	9,930	2,255

Lone Grove School District I-32
Carter County, Oklahoma
Supplemental Schedule Combining Schedule of Changes in Cash Balances
Regulatory Basis- Activity Funds
For the Year Ended June 30, 2013

Baseball Concession	4,294	15,392	13,596	6,090
Softball Concession	6,927	12,735	16,257	3,405
Lift-A-Thon	3,136	13,190	13,679	2,647
FCA	592	1,100	1,200	492
HS Girls Basketball	3,213	11,995	14,208	1,000
8th Grade American History	841	2,130	2,971	-
3rd Grade	1,545	590	1,141	994
MS Accelerated Reading	190	-	-	190
Extended Child Care	-	54,394	54,394	-
Second Grade Account	1,617	3,184	3,588	1,213
Papa's Academic Account	940	-	-	940
Longhorn Invitational Tournament	12,477	12,308	10,866	13,919
Lone Grove Golf Team	41	1,559	1,456	144
7th Grade	4,121	-	-	4,121
HS Boys Basketball	2,000	6,830	8,084	746
Insurance	836	980	-	1,816
Special Olympics	52	-	-	52
Dugout Club	2,221	14,057	13,576	2,702
	<u>\$ 227,037</u>	<u>\$ 855,193</u>	<u>\$ 869,744</u>	<u>\$ 212,486</u>

Lone Grove School District I-32
Carter County, Oklahoma
Supplemental Schedule
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grant / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass - Through Grantor's Project Number	Balance 6/30/2012	Federal Grant Receipts	Federal Grant Expenditures	Balance 6/30/2013
U.S. Dept. of Education						
<i>Direct Grants</i>						
Title VIII - Impact Aid	84.041	591	\$ (36,664)	\$ 42,636	\$ -	\$ 5,972
Title VI - Part B Rural Education Initiative	84.358B	587	-	29,539	29,539	-
Indian Education Grants to Local Education Agencies	84.060	561	-	62,680	62,842	(162)
<i>Passed Through State Department of Education:</i>						
Special Education - Flow - Through	84.027	621	\$ (316,514)	\$ 316,514	\$ 298,818	\$ (298,818)
Special Education - Preschool	84.173	641	(700)	7,815	7,115	-
Special Education Cluster			<u>\$ (317,214)</u>	<u>\$ 324,329</u>	<u>\$ 305,933</u>	<u>\$ (298,818)</u>
Title I, Grants to Local Education Agencies	84.010	511	\$ (234,253)	\$ 234,253	\$ 245,553	\$ (245,553)
Rehabilitation Services - Vocation Rehabilitation Grants	84.126	456	\$ (672)	\$ 1,189	\$ 1,195	\$ (678)
Title II - Part D (a) - Staff Development	84.318	548	(714)	714	-	-
Title II - Part A - Improving Teacher Quality	84.367	541	(68,522)	97,346	37,587	(8,763)
<i>Passed Through Vocational Education:</i>						
Career and Technical Education - Basic Grant to States (Perkins IV)	84.048	421	(1,966)	12,644	11,183	(505)
Total U.S. Department of Education			<u>\$ (660,005)</u>	<u>\$ 805,330</u>	<u>\$ 693,832</u>	<u>\$ (548,507)</u>
U.S. Department of Interior:						
<i>Passed Through Chickasaw Nation:</i>						
Indian Education Assistance to Schools	15.130	563	<u>\$ (13,034)</u>	<u>\$ 13,034</u>	<u>\$ 15,200</u>	<u>\$ (15,200)</u>
U.S. Department of Agriculture:						
<i>Passed Through State Department of Education:</i>						
National School Lunch Program	10.555	763	\$ -	\$ 245,340	\$ 245,340	\$ -
School Lunch Program - Commodities	10.555	763	-	28,989	28,989	-
School Breakfast Program	10.553	764	-	72,340	72,340	-
Child Nutrition Cluster			<u>\$ -</u>	<u>\$ 346,669</u>	<u>\$ 346,669</u>	<u>\$ -</u>
Total U.S. Department of Agriculture			<u>\$ -</u>	<u>\$ 346,669</u>	<u>\$ 346,669</u>	<u>\$ -</u>
Total Expenditures of Federal Awards			<u>\$ (673,039)</u>	<u>\$ 1,165,033</u>	<u>\$ 1,055,701</u>	<u>\$ (563,707)</u>

Lone Grove School District I-32
Carter County, Oklahoma
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Note 1: Basis of Presentation

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



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

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

We have audited the accompanying fund type and account group financial statements of Lone Grove School District I-32, Carter County Oklahoma, as of and for the year ended June 30, 2013, which collectively comprise the Lone Grove School District I-32, Carter County Oklahoma's regulatory financial statements and have issued our report thereon dated March 3, 2014. Our report included an adverse opinion on U.S. Generally Accepted Accounting Principles and a qualified opinion due to the omission of the general fixed asset account group. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lone Grove School District I-32 Carter County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness Lone Grove School District I-32 Carter County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Lone Grove School District I-32 Carter County, Oklahoma's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questions costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2013-4.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2013-1 and 2013-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lone Grove School District I-32, Carter County Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-2, 2013-3 and 2013-5.

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

Lone Grove School District I-32, Carter County Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Lone Grove School District I-32, Carter County Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

March 3, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited Lone Grove School District I-32, Carter County, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lone Grove School District I-32, Carter County, Oklahoma's major federal programs for the year ended June 30, 2013. Lone Grove School District I-32, Carter County, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Lone Grove School District I-32, Carter County, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

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

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
March 3, 2014

Lone Grove School District I-32
 Carter County, Oklahoma
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

Financial Statements:

Type of audit report:	Qualified Opinion Regulatory Basis
Internal control over financial reporting:	
Material weakness(es) identified?	_____ <input checked="" type="checkbox"/> Yes _____ <input type="checkbox"/> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ <input checked="" type="checkbox"/> Yes _____ <input type="checkbox"/> No
Noncompliance material to financial statement	_____ <input checked="" type="checkbox"/> Yes _____ <input type="checkbox"/> No

Federal Awards:

Internal control over major program:	
Material weakness(es) identified?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No
---	--

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of federal Program or Cluster</u>
84.173, 84.027	Special Education Cluster
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A	\$ 300,000
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Auditee qualified as a low-risk auditee?	_____ <input type="checkbox"/> Yes _____ <input checked="" type="checkbox"/> <input type="checkbox"/> No
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Lone Grove School District I-32
Carter County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II – Financial Statement Findings

2013-1 Financial Reporting

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

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

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

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

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

*Views of Responsible Officials
and Planned Corrective*

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

Lone Grove School District I-32
Carter County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

2013-2 Activity Fund Receipts

Condition: Funds collected by sponsors are not being deposited timely and lack of supporting documentation for funds received by sponsors.

Criteria: Oklahoma Statutes 70-5.129 requires receipts equal or exceeding \$100 to be deposited by the following business day or weekly if less than \$100. Sponsors should be issuing receipts individually to students.

Cause: Failure to follow state law related to activity funds & Board policy.

Context: Five of twenty-five receipts tested were not deposited within one business day based on the inability to determine the true date the sponsor had received the funds from the student. Six out of twenty five receipts tested did not have supporting documentation detailing who funds were received from, the amount, and type of funds remitted to the sponsor.

Effect: Lack of compliance with state law and board policy.

Recommendation: We recommend that internal control procedures be strengthened and implemented.

1. Site Secretaries should be issuing financial secretary receipts to the Teachers/Sponsors that submit funds for deposit.
2. Teacher/Sponsors need to ensure that are completing pre-numbered receipts to students remitting the funds.
3. Reconciliation of Items Sold to amounts collected needs to be completed when selling t-shirts, school supplies, concession etc.

*Views of Responsible Officials
and Planned Corrective*

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

2013-3 Retirement

Condition: Federal match of teacher retirement contribution was not computed on all Salaries paid with Federal Funds

Criteria: Oklahoma Statutes 70-17.108 requires “shall match on a pro rata basis, ... the contributions of members whose salaries are paid by federal funds.”

Cause: Failure to identify project code as federal program in payroll system.

Lone Grove School District I-32
Carter County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Context: Estimated underpayment of match for federal salaries tested in the amount of approximately \$4,000.

Effect: Risk of underpayment or overpayment of federal match retirement.

Recommendation: We recommend that the district implement controls to monitor the amount of federal match retirement being paid is reasonable with the amount of federal salaries being paid each pay period.

*Views of Responsible Officials
and Planned Corrective*

Action: The District has contacted the software vendor and has the project now identified as federal program and retirement will be paid. District will also create procedure to monitor throughout the year.

2013-4 Unrecorded Deposits and Checks

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

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

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

Context: During testing of cash it was determined there were approximately \$75,000 of additional deposits that had never been recorded in the accounting system as well as approximately \$5,000 difference between checks paid per bank statements and payment clearing registers.

Effect: Risk of misappropriation of assets

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

*Views of Responsible Officials
and Planned Corrective*

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

Lone Grove School District I-32
Carter County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

2013-5 Child Nutrition 3-Month Carryover Balance

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

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

Cause: Failure to monitor the child nutrition carryover

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

Effect: Out of compliance with USDA regulation.

Recommendation: We recommend that district implement using the Child Nutrition Fund 22 to track all child nutrition activity. This will allow the district better transparency to monitor the child nutrition activity and carryover throughout the year.

*Views of Responsible Officials
and Planned Corrective*

Action: District will consult with the child nutrition director and determine the needs of the program and will to use the excess carryover balance during fiscal year 2014. Beginning in school year 2014-2015, District will start using the specific Child Nutrition Fund 22, which will allow for better monitoring of the carryover balance.

Section III – Federal Award Findings and Questioned Costs

None noted

Lone Grove School District I-32
Carter County, Oklahoma
Summary of Prior Year Findings
For the Year Ended June 30, 2013

Findings relating to the Financial Statements

2012-1 *Condition:* The District does not have a financial reporting system in place to ensure that all financial information is disclosed in the appropriate accounting period and in accordance with the regulatory basis of accounting and State Department of Education guidelines. In addition, the District does not report a general fixed asset account group as required by the State Department of Education guidelines.

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

Current Status: Condition still exists see current year finding 2013-1.

2012-2

Condition: Funds collected by sponsors are not being turned to the financial secretary timely.

Recommendation: The Auditor recommended that all sponsors be informed of the requirements surrounding activity fund receipts.

Current Status: Condition still exists see current year finding 2013-2.

2012-3

Condition: Construction project that exceeding \$50,000 did not complete the competitive bidding process.

Recommendation: The Auditor recommended that Oklahoma Statute 61-103 be reviewed and used as guidance for future construction projects.

Current Status: Condition has been resolved.

Findings relating to Federal Awards

None

Lone Grove School District I-32
Carter County, Oklahoma
Statement of Statutory Fidelity, and Honesty Bonds (unaudited)
For the Year Ended June 30, 2013

The superintendent is bonded by Old Republic Surety Company surety bond number is W150026601 with a coverage of \$100,000 and is for the term July 1, 2012 to July 1, 2013.

The treasurer is bonded by Western Surety Company, bond number 01708762, for the penal sum of \$50,000 for the term July 14, 2012 to July 14, 2013.

The activity fund custodian is bonded by Western Surety Company, bond number 14328792, for the penal sum of \$1,000 for the term June 10, 2012 to June 10, 2013, which was renewed to June 10, 2013 to June 10, 2014.

The minutes clerk is bonded by Western Surety Company, bond number 14328793, for the penal sum of \$1,000 for the term July 1, 2012 to July 1, 2013.

The encumbrance clerks are bonded by Western Surety Company, bond number 18209318, for the penal sum of \$1,000 for the term July 5, 2012 to July 5, 2013.

Lone Grove School District I-32
Carter County, Oklahoma
Reconciliation Schedule for OCAS Data (unaudited)
For the Year Ended June 30, 2013

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds with Oklahoma State Department of Education OCAS Reports and
Estimate of Needs

	Cash Forward/ Beginning Fund Balance	Revenues	Expenditures	Cash Forward/Ending Fund balance
<u>General Fund</u>				
General Fund Per Audit	\$ 1,084,432	\$ 9,624,958	\$ (10,226,129)	\$ 483,261
Adjustment for Estopped Warrants	637	(637)	-	-
Audit Adjustments	(2,103)	779	4	(1,320)
Per OCAS District Check Report	<u>\$ 1,082,966</u>	<u>\$ 9,625,100</u>	<u>\$ (10,226,125)</u>	<u>\$ 481,941</u>
<u>Special Revenue Fund</u>				
Special Revenue Fund Per Audit	\$ 2,256,642	\$ 194,966	\$ (690,224)	\$ 1,761,384
Audit Adjustments	-	(865)	-	(865)
Per OCAS District Check Report	<u>\$ 2,256,642</u>	<u>\$ 194,101</u>	<u>\$ (690,224)</u>	<u>\$ 1,760,519</u>
Estimate of Needs Ending Fund Balance:				\$ 1,761,384
Audit Adjustments				(865)
Building Fund Ending Fund Balance:				<u>\$ 1,760,519</u>
<u>Debt Service Fund</u>				
Debt Service Fund Per Audit	\$ 976,638	\$ 981,645	\$ (974,156)	\$ 984,127
FY 12 Audit adjustments recorded for timing of bond payments and interest accrual	(937,408)	-	-	(937,408)
Audit Adjustments		(1,241)	550	(691)
Per OCAS District Check Report	<u>\$ 39,230</u>	<u>\$ 980,404</u>	<u>\$ (973,606)</u>	<u>\$ 46,028</u>
Estimate of Needs Ending Balance:				47,752
Audit adjustment related to timing of bond payments and interest accrual				937,408
Change in accrual				(1,033)
Debt Service Fund Balance Per Audit:				<u>984,127</u>
<u>Capital Projects Fund</u>				
Capital Projects Fund Per Audit	\$ 1,911,658	\$ 7,835	\$ (1,588,244)	\$ 331,249
Audit Adjustments	(81,969)	(7,835)	-	(89,804)
Per OCAS District Check Report	<u>\$ 1,829,689</u>	<u>\$ -</u>	<u>\$ (1,588,244)</u>	<u>\$ 241,445</u>
Federal Revenues Reconciliation:				
Per Audit Federal Sources		\$ 1,136,044		
Reclassification in OCAS Data		11,183		
Per OCAS District Revenue Report		<u>\$ 1,147,227</u>		
Federal Expenditures Reconciliation:				
Federal Expenditures per SEFA		\$ 1,055,701		
Indirect Costs Reimbursed		(17,186)		
Child Nutrition Expenditures Reclassed to 385		(9,354)		
Per OCAS Federal Project Coding:		<u>\$ 1,029,161</u>		

Lone Grove School District I-32
Carter County, Oklahoma
Schedule of Accountant's Professional Liability Insurance Affidavit (unaudited)
For the Year Ended June 30, 2013

State of Oklahoma)

County of Carter)

The undersigned auditing firm of lawful age, being first duly sworn on oath, says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Lone Grove School District I-32 for the audit year 2012-2013.

RAHHAL HENDERSON JOHNSON, PLLC

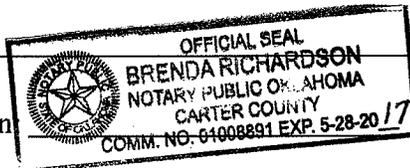
BY: Mary E Johnson
Authorized Agent

Subscribed and sworn to before me on this 6 day of March, 2014.

Brenda Richardson
Notary Public

Commission Number:

My commission expires on



day of, _____, 20__.