

GRANITE INDEPENDENT SCHOOL DISTRICT NO. 3

GREER COUNTY, OKLAHOMA

JUNE 30, 2011

TABLE OF CONTENTS

<u>SCHOOL DISTRICT OFFICIALS</u>	Page 1
<u>INDEPENDENT AUDITOR'S REPORT</u>	2
<u>COMBINED FINANCIAL STATEMENTS</u>	
Combined Statement of Assets, Liabilities and Equity - Regulatory Basis - All Fund Types and Account Groups	4
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances - Regulatory Basis - All Governmental Fund Types	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types	6
Notes to Combined Financial Statements	7
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
<u>Combining Financial Statements</u>	
Combining Statement of Assets, Liabilities and Fund Balances - Regulatory Basis - All Special Revenue Funds	Exhibit A-1
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances-Regulatory Basis-All Special Revenue Funds	Exhibit A-2
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual-Regulatory Basis-Budgeted Governmental Fund Types	Exhibit A-3
Combining Assets, Liabilities and Fund Equity - Activity Fund - Regulatory Basis	Exhibit A-4
Combining Statement of Changes in Assets and Liabilities - Regulatory Basis - Activity Fund	Exhibit A-5
<u>Supporting Schedule(s)</u>	
Schedule of Federal Awards Expended	Exhibit B-1
<u>INTERNAL CONTROL AND COMPLIANCE REPORTS</u>	
Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards	Exhibit C-1
<u>OTHER INFORMATION</u>	
Schedule of Accountants' Professional Liability Insurance	Exhibit D-1
Summary Schedule of Prior Year Audit Findings	Exhibit E-1
School's Corrective Action Plan	

**GRANITE INDEPENDENT SCHOOL DISTRICT NO. I-3, GREER COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2011**

BOARD OF EDUCATION

President	Jim Whitehead
Vice President	Sue Dudek
Clerk	Greg Carothers
Member	Shannon Carter
Member	Johnny Wilson

SUPERINTENDENT OF SCHOOLS

Rickey Webb

ENCUMBRANCE CLERK

Katie Carney

SCHOOL DISTRICT TREASURER

Carol New



ANGEL,
JOHNSTON &
BLASINGAME, P.C.

P.O. BOX 706 • 2700 SOUTH FOURTH
CHICKASHA, OKLAHOMA 73023
PHONE (405) 224-6363 • FAX (405) 224-6364
web www.telepath.com/ajba

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Granite Independent School District #3
Greer County, Oklahoma

Board Members:

We have audited the accompanying fund type and account group financial statements, including budget and actual, of the **Granite Independent School District #3**, Greer County, Oklahoma, which collectively comprise the district's regulatory financial statements as of and for the year ended June 30, 2011, as listed in the table of contents as combined financial statements,. These financial statements are the responsibility of the District's management. 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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 1, **Granite Independent School District #3**, Greer County, has prepared these financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America although not reasonably determinable are presumed to be material.

In addition, the District has not maintained the cost of fixed assets purchased in previous years and thus does not know the amount that should be recorded in the General Fixed Asset Account Group. Therefore, the General Fixed Asset Account Group has not been presented. This information is required under the regulatory presentation prescribed by the Oklahoma State Department of Education.

In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of **Granite Independent School District #3**, Greer County, Oklahoma, as of June 30, 2011, or the changes in its financial position, for the year then ended.

In our opinion, except for the omission of the General Fixed Asset Account Group results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of **Granite School District, No 3**, Greer County, Oklahoma as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and budgetary results, for the year 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 5, 2012, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District as a whole. The combining fund statements and other schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education* and is also not a required part of the combined financial statements of **Granite Independent School District #3**, Greer County, Oklahoma. The combining fund statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 combined financial statements as a whole on the regulatory basis of accounting described in Note 1.

Angel, Johnston & Blessingame, P.C.

Chickasha, Oklahoma
March 5, 2012

COMBINED FINANCIAL STATEMENTS

Granite School District No.I-003, Greer County, Oklahoma
Combined Statement of Assets, Liabilities and Equity
Regulatory Basis - All Fund Types and Account Groups
For the Year Ending June 30, 2011

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long- Term Debt	June 30, 2011
ASSETS							
Cash and Cash Equivalents	\$ 435,994	\$ 54,570	\$ 42,896	\$ 4,043	\$ 54,189	\$ 0	\$ 591,692
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	42,896	42,896
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	237,104	237,104
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	0	0
Total Assets	\$ 435,994	\$ 54,570	\$ 42,896	\$ 4,043	\$ 54,189	\$ 280,000	\$ 871,692
LIABILITIES AND FUND BALANCE							
Liabilities:							
Warrants Payable	\$ 108,999	\$ 11,798	\$ 0	\$ 50	\$ 0	\$ 0	\$ 120,847
Reserve for Encumbrances	10,469	4,414	0	0	0	0	14,883
Due to Activity Groups	0	0	0	0	54,189	0	54,189
General Obligation Bonds Payable	0	0	0	0	0	280,000	280,000
Capitalized Lease Obligations Payable	0	0	0	0	0	0	0
Total Liabilities	\$ 119,468	\$ 16,212	\$ 0	\$ 50	\$ 54,189	\$ 280,000	\$ 469,919
Fund Equity:							
Reserved for Debt Service	\$ 0	\$ 0	\$ 42,896	\$ 0	\$ 0	\$ 0	\$ 42,896
Reserved for Capital Projects	0	0	0	3,993	0	0	3,993
Cash Fund Balance	316,526	38,357	0	0	0	0	354,883
Total Fund Equity	\$ 316,526	\$ 38,357	\$ 42,896	\$ 3,993	\$ 0	\$ 0	\$ 401,773
Total Liabilities and Fund Equity	\$ 435,994	\$ 54,570	\$ 42,896	\$ 4,043	\$ 54,189	\$ 280,000	\$ 871,692

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

Granite School District No.1-003, Greer County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ending June 30, 2011

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2011
Revenue Collected:					
Local Sources	\$ 395,579	\$ 41,033	\$ 39,855	\$ 12	\$ 476,479
Intermediate Sources	23,615	0	0	0	23,615
State Sources	1,225,715	75,986	0	0	1,301,700
Federal Sources	266,454	78,623	0	0	345,077
Non-Revenue Receipts	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 1,911,362</u>	<u>\$ 195,642</u>	<u>\$ 39,855</u>	<u>\$ 12</u>	<u>\$ 2,146,871</u>
Expenditures Paid:					
Instruction	\$ 1,164,796	\$ 57,468	\$ 0	\$ 0	\$ 1,222,263
Support Services	647,825	47,563	0	0	695,388
Operation of Non-Instructional Services	7,893	124,294	0	0	132,188
Facilities Acquisition and Construction	4,107	0	0	0	4,107
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	260	0	0	260
Debt Service:					
Principal Retirement	0	0	20,000	0	20,000
Interest and Fiscal Agent Fees	0	0	10,533	0	10,533
<i>Total Expenditures Paid</i>	<u>\$ 1,824,620</u>	<u>\$ 229,585</u>	<u>\$ 30,533</u>	<u>\$ 0</u>	<u>\$ 2,084,738</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 86,742</u>	<u>\$ (33,944)</u>	<u>\$ 9,323</u>	<u>\$ 12</u>	<u>\$ 62,133</u>
Adjustments to Prior Year Encumbrances	<u>\$ 49</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 49</u>
Other Financing Sources (Uses):					
Estopped Warrants	\$ 200	\$ 11	\$ 0	\$ 0	\$ 211
Bond Proceeds	0	0	0	0	0
Transfers In	200	32,661	0	0	32,861
Transfers Out	(200)	0	0	0	(200)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 200</u>	<u>\$ 32,672</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,872</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 86,991</u>	<u>\$ (1,272)</u>	<u>\$ 9,323</u>	<u>\$ 12</u>	<u>\$ 95,054</u>
<i>Fund Balance - Beginning of Year</i>	<u>229,535</u>	<u>39,629</u>	<u>33,574</u>	<u>3,981</u>	<u>306,719</u>
<i>Fund Balance - End of Year</i>	<u>\$ 316,526</u>	<u>\$ 38,357</u>	<u>\$ 42,896</u>	<u>\$ 3,993</u>	<u>\$ 401,773</u>

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

Granite School District No. I-003, Greer County, Oklahoma
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types
For the Year Ending June 30, 2011

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 289,833	\$ 289,833	\$ 395,579	\$ 62,848	\$ 62,848	\$ 41,033	\$ 38,589	\$ 38,589	\$ 39,855
Intermediate Sources	28,200	28,200	23,615	0	0	0	0	0	0
State Sources	1,195,403	1,195,403	1,225,715	63,802	63,802	75,986	0	0	0
Federal Sources	267,492	267,492	266,454	67,370	77,370	78,623	0	0	0
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 1,780,928</u>	<u>\$ 1,780,928</u>	<u>\$ 1,911,362</u>	<u>\$ 194,020</u>	<u>\$ 204,020</u>	<u>\$ 195,642</u>	<u>\$ 38,589</u>	<u>\$ 38,589</u>	<u>\$ 39,855</u>
Expenditures Paid:									
Instruction	\$ 1,347,569	\$ 1,347,569	\$ 1,164,796	\$ 59,318	\$ 59,318	\$ 57,468	\$ 0	\$ 0	\$ 0
Support Services	643,000	643,000	647,825	50,607	50,607	47,563	0	0	0
Operation of Non-Instructional Services	9,500	9,500	7,893	123,724	133,724	124,294	0	0	0
Facilities Acquisition and Construction	0	0	4,107	0	0	0	0	0	0
Other Outlays	10,194	10,194	0	0	0	0	72,163	72,163	30,533
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	260	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 2,010,263</u>	<u>\$ 2,010,263</u>	<u>\$ 1,824,620</u>	<u>\$ 233,649</u>	<u>\$ 243,649</u>	<u>\$ 229,585</u>	<u>\$ 72,163</u>	<u>\$ 72,163</u>	<u>\$ 30,533</u>
<i>Excess of Revenues Collected Over (Under)</i>									
<i>Expenditures Paid Before Adjustments to</i>									
<i>Prior Year Encumbrances</i>	\$ (229,335)	\$ (229,335)	\$ 86,742	\$ (39,629)	\$ (39,629)	\$ (33,944)	\$ (33,574)	\$ (33,574)	\$ 9,323
Adjustments to Prior Year Encumbrances	\$ 0	\$ 0	\$ 49	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ 200	\$ 0	\$ 0	\$ 11	\$ 0	\$ 0	\$ 0
Transfers In	0	0	200	0	0	32,661	0	0	0
Transfers Out	(200)	(200)	(200)	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (200)</u>	<u>\$ (200)</u>	<u>\$ 200</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,672</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected</i>									
<i>Over Expenditures Paid and Other Financing</i>									
<i>Sources (Uses)</i>	\$ (229,535)	\$ (229,535)	\$ 86,991	\$ (39,629)	\$ (39,629)	\$ (1,272)	\$ (33,574)	\$ (33,574)	\$ 9,323
<i>Fund Balance - Beginning of Year</i>	229,535	229,535	229,535	39,629	39,629	39,629	33,574	33,574	33,574
<i>Fund Balance - End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 316,526</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 38,357</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 42,896</u>

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Granite Public Schools Independent District No. 3, Greer County, Oklahoma (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

1.A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes.

The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on the State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

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

1.B. Fund Accounting

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

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

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

Governmental Fund Types

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

1. General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenues sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program.

Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

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

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

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

Cooperative Fund – The cooperative fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues from this fund come from a state alternative education grant and additional contributions from the participating schools as needed. Expenditures for this fund are those necessary to operate and maintain the joint program. Granite School is the LEA for this alternative education program.

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

4. Capital Projects Fund - The capital projects fund consists of the District's 2009 Building Bond Fund. This fund is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities.

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

1.B. Fund Accounting, (continued)

Fiduciary Fund Types

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

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

Account Groups

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

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

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

Memorandum Only - Total Column

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

1.C. Basis of Accounting and Presentation

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

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

1.D. Budgets and Budgetary Accounting

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

Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

1.E. Assets, Liabilities and Fund Equity

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

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

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

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

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

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

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

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

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

Fund Balance – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

1.F. Revenue, Expenses, and Expenditures

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

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

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

Interfund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed. Transfers in/transfers out may not agree because activity fund transactions are not included.

Note 2 – Deposit and Investment Risk

The District held the following deposits and investments at June 30, 2011:

		Carrying Value
		<hr/>
Deposits		
Demand Deposits	\$	593,418
Time Deposits		<hr/> 0
Total Deposits	\$	<hr/> <hr/> 593,418
Investments		
	<hr/> Credit Rating	<hr/> Maturity
		Fair Value
		<hr/> \$ 0
Total Investments		<hr/> <hr/> \$ 0
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	591,692
Activity Fund Outstanding Checks		<hr/> 1,726
Total Deposits and Investments	\$	<hr/> <hr/> 593,418

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 2 – Deposit and Investment Risk, (continued)

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

At June 30, 2011, the District was not exposed to custodial credit risk as defined above.

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

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

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

The district had no investment credit risk as of June 30, 2011, as defined above.

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 2 – Deposit and Investment Risk, (continued)

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

At June 30, 2011, the District had no concentration of credit risk as defined above.

Note 3 - General Long-term Debt

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

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

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

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2010	300,000	0	0	300,000
Additions	0	0	0	0
Retirements	(20,000)	-	0	(20,000)
Balance, June 30, 2011	280,000	0	0	280,000

A brief description of the outstanding general obligation bond issues at June 30, 2011 is set forth below:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2009 Building Bonds	2.75-4.10%	May 1, 2019	\$ <u>300,000</u>	\$ <u>280,000</u>
Totals			\$ <u>300,000</u>	\$ <u>280,000</u>

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2009 Building Bonds					
2011-12	\$ 35,000	\$	9,783	\$	44,783
2012-13	35,000		8,470		43,470
2013-14	35,000		7,507		42,507
2014-15	35,000		6,457		41,457
2015-16	35,000		5,320		40,320
2016-17	35,000		4,095		39,095
2017-18	35,000		2,800		37,800
2018-19	35,000		1,435		36,435
Sub Total	\$ 280,000	\$	45,867	\$	325,867
 Total Bonds	 \$ 280,000	 \$	 45,867	 \$	 325,867

Interest expense on bonds payable incurred during the current year totaled \$10,533.

Note 4 - Employee Retirement System

Plan Description - The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System") which is a cost-sharing multiple-employer defined benefit Public Employee Retirement System. Under the System the District, the State of Oklahoma, and the participating employees make contributions. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. 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 district has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

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

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent or the average of the highest three earning years of contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000, and the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 4 - Employee Retirement System, (continued)

employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50%, of applicable compensation for the year ended June 30, 2011. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The District's contributions to the System for the years ending June 30, 2011, 2010 and 2009 were \$101,580.91, \$104,275 and \$105,628 respectively.

The compensation for employees covered by the System for the year ended June 30, 2011 was \$1,069,269; the District's total compensation was \$1,391,895. In addition to the District's 9.50% contributions, the District was required to pay into the System 6.5% of compensation arising from federal grants (12,405) and 9.50% of compensation arising from post retirement employees (\$0). There were \$55,484 contributions made by employees during the year ended June 30, 2011.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The nonfunded pension benefit obligation of the System as determined as part of the latest actuarial valuation dated June 30, 2010, is as follows:

Total pension obligation	\$ 19,980,640,592
Net assets available for benefits, at cost	<u>9,566,683,405</u>
Nonfunded pension benefit obligation	<u>\$ 10,413,957,187</u>

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

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2010. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they come due.

Note 5 - Contingencies

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

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

Granite ISD No. 3, Greer County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, employees' health and life and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 7 - Use of Estimates

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

Note 8 – Surety Bonds

The treasurer is bonded by Western Surety Company, bond number 12321870 for the penal sum of \$100,000 for the term of July 1, 2010 to June 30, 2011.

The encumbrance clerk is bonded by Western Surety Company bond Number 70507912 for the penal sum of \$100,000 for the term of July 1, 2010 to June 30, 2011.

The superintendent is bonded by Western Surety Company Bond #70794025 for the penal sum of \$100,000 for the term July 1, 2010 to June 30, 2011.

Note 9 – Budget Amendments

The Child Nutrition Fund Budget was amended by filing a supplemental appropriations form with the county clerk's office. The supplemental appropriation was filed May 16, 2011 for \$10,000. This increased the original Child Nutrition Fund Budget from \$123,724 to \$133,724.

OTHER SUPPLEMENTAL INFORMATION

Granite School District No. I-003, Greer County, Oklahoma
Combining Statement of Assets, Liabilities and Cash Fund Balances
Regulatory Basis - All Special Revenue Funds
For the Year Ending June 30, 2011

	Building Fund	Child Nutrition Fund	Coop Fund	Total June 30, 2011
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 18,042	\$ 23,607	\$ 12,921	\$ 54,570
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 18,042</u>	<u>\$ 23,607</u>	<u>\$ 12,921</u>	<u>\$ 54,570</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants Payable	\$ 2,838	\$ 3,248	\$ 5,712	\$ 11,798
Reserve for Encumbrances	<u>4,000</u>	<u>414</u>	<u>0</u>	<u>4,414</u>
<i>Total Liabilities</i>	<u>\$ 6,838</u>	<u>\$ 3,662</u>	<u>\$ 5,712</u>	<u>\$ 16,212</u>
Fund Balance:				
Cash Fund Balance	<u>\$ 11,204</u>	<u>\$ 19,945</u>	<u>\$ 7,208</u>	<u>\$ 38,357</u>
<i>Total Fund Balance</i>	<u>\$ 11,204</u>	<u>\$ 19,945</u>	<u>\$ 7,208</u>	<u>\$ 38,357</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 18,042</u>	<u>\$ 23,607</u>	<u>\$ 12,921</u>	<u>\$ 54,570</u>

Granite School District No.I-003, Greer County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - Special Revenue Funds
For the Year Ending June 30, 2011

	Building Fund	Child Nutrition Fund	Cooperative Fund	Total June 30, 2011
Revenue Collected:				
Local Sources	\$ 40,894	\$ 139	\$ 0	\$ 41,033
Intermediate Sources	0	0	0	0
State Sources	5,354	10,163	60,469	75,986
Federal Sources	0	78,623	0	78,623
Non-Revenue Receipts	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 46,248</u>	<u>\$ 88,925</u>	<u>\$ 60,469</u>	<u>\$ 195,642</u>
Expenditures Paid:				
Instruction	\$ 0	\$ 0	\$ 57,468	\$ 57,468
Support Services	47,563	0	0	47,563
Operation of Non-Instructional Services	0	124,294	0	124,294
Facilities Acquisition and Construction	0	0	0	0
Other Outlays	0	0	0	0
Other Uses	0	0	0	0
Repayments	0	0	0	0
Interest Paid and Bank Charges	240	20	0	260
<i>Total Expenditures Paid</i>	<u>\$ 47,803</u>	<u>\$ 124,314</u>	<u>\$ 57,468</u>	<u>\$ 229,585</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (1,555)</u>	<u>\$ (35,390)</u>	<u>\$ 3,002</u>	<u>\$ (33,944)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):				
Estopped Warrants	\$ 0	\$ 11	\$ 0	\$ 11
Transfers In	0	32,661	0	32,661
Transfers Out	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 32,672</u>	<u>\$ 0</u>	<u>\$ 32,672</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (1,555)</u>	<u>\$ (2,718)</u>	<u>\$ 3,002</u>	<u>\$ (1,272)</u>
<i>Fund Balance - Beginning of Year</i>	<u>12,759</u>	<u>22,663</u>	<u>4,207</u>	<u>39,629</u>
<i>Fund Balance - End of Year</i>	<u>\$ 11,204</u>	<u>\$ 19,945</u>	<u>\$ 7,208</u>	<u>\$ 38,357</u>

Granite School District No. I-003, Greer County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Special Revenue Funds - Budget and Actual
For the Year Ending June 30, 2011

	Building Fund			Cooperative Fund			Child Nutrition Fund			Total		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:												
Local Sources	\$ 37,848	\$ 37,848	\$ 40,894	\$ 0	\$ 0	\$ 0	\$ 25,000	\$ 25,000	\$ 139	\$ 62,848	\$ 62,848	\$ 41,033
Intermediate Sources	0	0	0	0	0	0	0	0	0	0	0	0
State Sources	0	0	5,354	55,111	55,111	60,469	8,691	8,691	10,163	63,802	63,802	75,986
Federal Sources	0	0	0	0	0	0	67,370	77,370	78,623	67,370	77,370	78,623
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 37,848</u>	<u>\$ 37,848</u>	<u>\$ 46,248</u>	<u>\$ 55,111</u>	<u>\$ 55,111</u>	<u>\$ 60,469</u>	<u>\$ 101,061</u>	<u>\$ 111,061</u>	<u>\$ 88,925</u>	<u>\$ 194,020</u>	<u>\$ 204,020</u>	<u>\$ 195,642</u>
Expenditures Paid:												
Instruction	\$ 0	\$ 0	\$ 0	\$ 59,318	\$ 59,318	\$ 57,468	\$ 0	\$ 0	\$ 0	\$ 59,318	\$ 59,318	\$ 57,468
Support Services	50,607	50,607	47,563	0	0	0	0	0	0	50,607	50,607	47,563
Operation of Non-Instructional Services	0	0	0	0	0	0	123,724	133,724	124,294	123,724	133,724	124,294
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	0	0	0	0	0	0
Other Uses	0	0	0	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0	0	0	0
Interest Paid	0	0	240	0	0	0	0	0	20	0	0	260
<i>Total Expenditures Paid</i>	<u>\$ 50,607</u>	<u>\$ 50,607</u>	<u>\$ 47,803</u>	<u>\$ 59,318</u>	<u>\$ 59,318</u>	<u>\$ 57,468</u>	<u>\$ 123,724</u>	<u>\$ 133,724</u>	<u>\$ 124,314</u>	<u>\$ 233,649</u>	<u>\$ 243,649</u>	<u>\$ 229,585</u>
<i>Excess of Revenues Collected Over (Under)</i>												
<i>Expenditures Paid Before Adjustments to</i>												
<i>Prior Year Encumbrances</i>	<u>\$ (12,759)</u>	<u>\$ (12,759)</u>	<u>\$ (1,555)</u>	<u>\$ (4,207)</u>	<u>\$ (4,207)</u>	<u>\$ 3,002</u>	<u>\$ (22,663)</u>	<u>\$ (22,663)</u>	<u>\$ (35,390)</u>	<u>\$ (39,629)</u>	<u>\$ (39,629)</u>	<u>\$ (33,944)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):												
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11	\$ 0	\$ 0	\$ 11
Transfers In	0	0	0	0	0	0	0	0	32,661	0	0	32,661
Transfers Out	0	0	0	0	0	0	0	0	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,672</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 32,672</u>
<i>Excess (Deficiency) of Revenue Collected</i>												
<i>Over Expenditures Paid and Other Financing</i>												
<i>Sources (Uses)</i>	<u>\$ (12,759)</u>	<u>\$ (12,759)</u>	<u>\$ (1,555)</u>	<u>\$ (4,207)</u>	<u>\$ (4,207)</u>	<u>\$ 3,002</u>	<u>\$ (22,663)</u>	<u>\$ (22,663)</u>	<u>\$ (2,718)</u>	<u>\$ (39,629)</u>	<u>\$ (39,629)</u>	<u>\$ (1,272)</u>
<i>Fund Balance - Beginning of Year</i>	<u>12,759</u>	<u>12,759</u>	<u>12,759</u>	<u>4,207</u>	<u>4,207</u>	<u>4,207</u>	<u>22,663</u>	<u>22,663</u>	<u>22,663</u>	<u>39,629</u>	<u>39,629</u>	<u>39,629</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 11,204</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 7,208</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 19,945</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 38,357</u>

Granite School District No.I-003, Greer County, Oklahoma
Combining Assets, Liabilities and Fund Equity
Activity Fund - Regulatory Basis
For the Year Ending June 30, 2011

	School Activity Fund
<u>ASSETS</u>	
Cash	\$ 54,189
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 54,189</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Due To Activity Groups	\$ <u>54,189</u>
<i>Total Liabilities</i>	<u>\$ 54,189</u>
Fund Equity:	
Unreserved/Undesignated	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 54,189</u>

Granite School District No.I-003, Greer County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ending June 30, 2011

ACTIVITIES	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Athletics	\$ 13,847	\$ 41,593	\$ 39,907	\$ 15,533
Baseball	2,692	5,346	4,247	3,791
Softball	1,603	9,535	8,728	2,410
General	1,821	674	1,736	760
Seniors	1,106	5,227	6,233	100
Juniors	0	4,850	4,500	350
Library	1,272	5,472	4,226	2,518
Secondary	759	3,302	3,553	508
FFA	1,397	23,499	23,900	996
FHA	93	0	0	93
Student Council	1,590	75	531	1,133
Industrial Arts	4,229	2,925	1,577	5,576
Concession	610	20,760	20,806	564
Annual	2,759	5,355	7,145	969
Pep Club	656	7,013	7,085	584
Science	172	30	0	202
Music	3,437	3,390	2,331	4,496
Elementary	3,337	24,973	19,570	8,740
Petty	0	200	200	0
Lunch	13	32,648	32,661	0
Academic	691	9,243	6,061	3,872
Special Ed	6	0	0	6
Art	1,005	0	16	989

Total Activities	\$ <u>43,094</u>	\$ <u>206,109</u>	\$ <u>195,013</u>	\$ <u>54,189</u>
------------------	------------------	-------------------	-------------------	------------------

GRANITE INDEPENDENT SCHOOL DISTRICT NO. 3, GREER COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDED
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA#	Grantor's Number	Receivables/ (Payables) Balance at July 1, 2010	Receipts	Expenditures	Receivables/ (Payables) Balance at June 30, 2011
U.S. Department of Education						
Direct Programs:						
Title VI, Subpart 1, Small Rural School Ach	84.358	588	-	21,017	21,017	-
Passed Through State Department of Education:						
Title I, Part A, Basic	84.010	511	(368)	40,135	39,767	-
ARRA Title I, Basic	84.389	516	-	-	10,744	(10,744)
Title I Cluster			(368)	40,135	50,512	(10,744)
IDEA-B Flowthrough	84.027	621	(125)	82,394	82,269	-
ARRA IDEA-B Flow Through	84.391A	622	-	15,507	23,604	(8,096)
ARRA IDEA Preschool	84.392A	643	(423)	423	-	-
IDEA-B Preschool	84.173	641	-	2,322	2,322	-
Special Education Cluster			(548)	100,646	108,194	(8,096)
ARRA Education Stabilization Fund	84.394	782	-	60,428	60,428	-
ARRA Government Service Fund (Note 4)	84.397	789	6,803	-	-	-
ARRA Stabilization Cluster			6,803	60,428	60,428	-
Title II, Part A, Teacher & Principal Training	84.367	586	-	14,007	14,007	-
Title II, Part D, Technology	84.318	586	-	132	132	-
Education JOBS Fund	84.410	790	-	30,089	51,581	(21,492)
Total U.S. Department of Education			5,888	266,454	305,872	(40,333)
U.S. Department of Agriculture						
Passed Through State Department of Education:						
Child Nutrition Cluster:						
School Breakfast Program (Note 2)	10.553	385	\$ -	\$ 20,205	\$ 20,205	\$ -
National School Lunch Program (Note 2)	10.555	385	-	58,419	58,419	-
Commodities Distributed - Lunch (Note 3)	10.555	N/A	-	7,436	7,436	-
Total for Child Nutrition Cluster:			\$ -	\$ 86,059	\$ 86,059	\$ -
Total U.S. Department of Agriculture			\$ -	\$ 86,059	\$ 86,059	\$ -
TOTAL FEDERAL ASSISTANCE			\$ 5,888	\$ 352,513	\$ 391,931	\$ (40,333)

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

Note 2 - The District does not track expenditures paid from these federal programs separately. Thus, expenditure amounts are the amount of federal revenues received from these programs during the fiscal year.

Note 3 - Commodities received in the amount of \$7,436 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 4 - As noted on the 2009-10 audit, the district received \$6,803 of project 789 monies but did not code any expenditures to this project code. It was determined that the district did expend these monies during the 2009-10 year.

The following transactions related to the American Recovery and Reinvestment Act:

	CFDA #	Project #	Federal Grant Receipts	Federal Grant Expenditures	Deferred ARRA Revenue (Accounts Rec)
ARRA Title I, Basic	84.389	516	-	10,744	(10,744)
ARRA IDEA-B Flow Through	84.391A	622	15,507	23,604	(8,096)
ARRA IDEA Preschool	84.392A	643	423	-	-
ARRA Education Stabilization Fund	84.394	782	60,428	60,428	-
Total ARRA Funds			76,358	94,776	(18,841)

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

The Honorable Board of Education
Granite Independent School District #3
Greer County, Oklahoma

Board Members:

We have audited the fund type and account group financial statements, including budget and actual, of **Granite Independent School District #3**, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements, and have issued our report thereon dated March 5, 2012. The report on these financial statements was adverse because the District has elected to prepare its financial statements in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to a departure related to the general fixed assets. 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 the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies in internal control over financial reporting. 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 below to be significant deficiencies in internal control over financial reporting.

2011-1 Finding

Statement of Condition - As noted on last year's audit, the District has a lack of segregation in the activity fund. The activity fund custodian receives money, prepares the deposits, takes money to the bank, records all transactions related to the activity fund and is one of the authorized signatures on the checks. She also performs the reconciliations.

Criteria – Good internal control procedures require segregation of the accounting function.

Cause/Effect of Condition – There are not enough employees in the district to properly segregate these duties, which allow opportunities for errors or fraud occurring and not being detected within a timely manner..

Recommendation – The board should assess the advantages of segregating the accounting functions in order to determine whether hiring/assigning personnel would be cost effective..

2011-2 – Finding

Statement of Condition – The payroll clerk received a \$1,000 payment for serving as a cheerleader sponsor. The district could not locate an extra duty contract for this payment and it wasn't approved in the board minutes.

Criteria – All extra duty payments should be documented through either a signed contract or approval in the board minutes.

Cause/Effect of Condition – This was an oversight by district personnel. However, payments could be made that are not authorized by the board of education.

Recommendation – All extra duty payments should be documented by a signed extra duty contract or approval in the minutes.

2011-3 - Finding - Prenumbered tickets were issued at gate admissions for basketball games. However, district personnel are not reconciling the gate proceeds to the tickets issued. In addition, 1 of 4 proceeds sheets tested only had one signature.

Criteria – Prenumbered tickets should be used for admissions in order to establish internal control. All tickets not sold by the gate keeper should be accounted for at the end of each event and a written reconciliation made of tickets sold to actual revenues collected.

Cause/Effect of Condition - Lack of procedures or lack of following procedures could lead to misappropriation of funds that would not be detected..

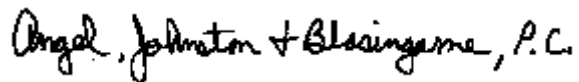
Recommendation – We have provided a sample reconciliation form that we recommend the school begin using immediately.

Compliance and Other Matters

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

The District's response to the findings identified in our audit are described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of education of Granite School, Oklahoma State Department of Education, and certain federal regulatory agencies and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Angel, Johnston & Blessingame, P.C." The signature is written in a cursive, flowing style.

Chickasha, Oklahoma
March 5, 2012

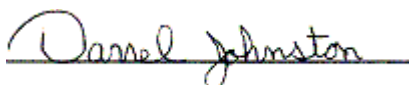
OTHER INFORMATION

Granite ISD No. 3, Greer County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2011

STATE OF OKLAHOMA)
)ss
COUNTY OF GRADY)

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Granite *Schools* for the audit year 2010-2011.

ANGEL, JOHNSTON, & BLASINGAME, P.C.


by _____

Subscribed and sworn to before me this _____ day of _____, 2012

Notary Public

My Commission Expires 11-12-12

Granite ISD No. 3, Greer County
Summary Schedule of Prior Year Audit Exceptions
Year Ended June 30, 2011

Management Letter Findings:

2010-1 – Finding - The district has a lack of segregation in the activity fund. The activity fund custodian receives money, prepares the deposits, takes money to the bank, records all transactions related to the activity fund and is one of the authorized signatures on the checks. She also performs all reconciliations.

Recommendation – The board should assess the advantages of segregating the accounting functions in order to determine whether hiring/assigning additional personnel would be cost effective.

Current Status - They have improved in this area but still have some problems. See Finding 2011-1 on Exhibit C-2.

2010-2 – Finding – State and federal grants are assigned a project and source of revenue code (OCAS codes) by the Oklahoma State Department of Education to ensure these grants are properly accounted for. The district received \$22,367 from a Small Rural School Achievement Grant during the 2009-10 year. The district used the OCAS project-source of revenue code of 120-4689. The correct OCAS project-source of revenue code should have been 588-4180.

Recommendation - The district should ensure the correct project-source of revenue codes are used for all federal revenues. The correct coding has been reflected on the Schedule of Federal Expenditures.

Current Status – We noted two errors on coding federal revenues during the 2010-11 audit.

2010-3 – Finding – The district received \$6,803 of ARRA Government Service Fund monies (project 789) during the 2009-10 year. However, the district did not code any expenditures to project 789.

Recommendation – We recommend the district contact the Oklahoma Department of Education to determine what needs to be done regarding this federal program.

Current Status - There were no 789 monies received for the 2010-11 year.

2010-4 – Finding – We prepared a meal collection analysis comparing meals served per the monthly claim for reimbursement versus actual deposits. Based upon this analysis, it appears that meal collections were \$5,266 under collected (after taking into account the districts \$8,252 of accounts receivables). We were unable to trace daily deposits because the district had not printed out daily reports and the DOS program would not allow the district to print out prior year amounts once the year was closed.

Recommendation – We recommend the district review these under collections to see if they can determine why the 2009-10 records don't match. Further, we recommend the district print out a daily list of who paid from their system and compare it to the daily deposit. These printouts should be maintained as part of the district's accounting records.

Current Status – The District has improved in this area.

2010-5 – Finding – Four of twenty four expenditures tested in the general, building, and child nutrition funds did not have a signature of the person who received/inspected the goods/service.

Recommendation – We recommend someone sign the invoice or packing slip verifying the goods or services were received and in good condition.

Current Status - They did a much better job of getting this required signature during the 2010-11 year.

2010-6 – Finding – Seven of twenty two purchase orders examined in the activity fund were dated after the invoice indicating goods or services were ordered prior to issuing the purchase order.

Recommendation – We recommend proper approval and encumbrance processes be followed in the activity fund.

Current Status - This was much improved during the 2010-11 year.

2010-7 – Finding – Pre-numbered tickets were issued at gate admissions for basketball games. However, the school did not reconcile the gate proceeds to the tickets issued. In addition, three of eight gate admission and concession collections forms at basketball games were only signed by one person to verify the amount collected. Oklahoma State Department of Education regulations states *“Prenumbered tickets should be used for admissions in order to establish internal control. All tickets not sold by the gate keeper should be accounted for at the end of each event and a written reconciliation made of tickets sold to actual revenues collected.”*

Recommendation – A written reconciliation of tickets sold to actual revenues collected should be prepared for all events which charge admissions. We recommend that two adults count the cash, complete the ticket reconciliation form and sign the form prior to the money being placed under the control of one person.

Current Status - The District has improved in this area, but the form needs to be more detailed and procedures need to be followed. We have provided them with a copy of a form to start using immediately. See Finding 2011-3 on Exhibit C-2.

Granite Public School District
Greer County
I-003

AUDIT FINDINGS
CORRECTIVE ACTION PLAN

FINDING: 2011-1

CONTACT PERSON: Rickey Webb, Carol Berry, Katie Carney

STEPS IMPLEMENTED: Until funding is available to hire additional personnel to help segregate the burdens of the Activity Fund, our district will try to reassign some duties to other personnel. For example, the district will remove the activity fund custodian as an authorized signature on checks and require the superintendent and encumbrance clerk to sign all activity fund checks.

COMPLETION DATE: March 5, 2012

FINDING: 2011-2

CONTACT PERSON: Rickey Webb, Katie Carney

STEPS IMPLEMENTED: Contracts will be printed and signed for all extra duty payments.

COMPLETION DATE: Ongoing

FINDING: 2011-3

CONTACT PERSON: Rickey Webb, Carol New

STEPS IMPLEMENTED: The District will be using a new reconciliation form to ensure that tickets sold and monies collected reconcile. The District will also require two signatures on each reconciliation.

COMPLETION DATE: Ongoing
