GRANITE INDEPENDENT SCHOOL DISTRICT NO. 3
GREER COUNTY, OKLAHOMA
JUNE 30, 2012

TABLE OF CONTENTS

	Page
SCHOOL DISTRICT OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
COMBINED FINANCIAL STATEMENTS	
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
OTHER SUPPLEMENTARY INFORMATION	
Combining Financial Statements	
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
Supporting Schedule(s)	
Schedule of Expenditures of Federal Awards	Exhibit B-1
INTERNAL CONTROL AND COMPLIANCE REPORTS	
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
OTHER INFORMATION	
Schedule of Accountants' Professional Liability Insurance	Exhibit D-1
Disposition of Prior Year Audit Exceptions	Exhibit E-1
School's Corrective Action Plan	

GRANITE INDEPENDENT SCHOOL DISTRICT NO. I-3, GREER COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012

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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, 2012, 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, Oklahoma, 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, 2012, 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 Independent School District, #3**, Greer County, Oklahoma as of June 30, 2012, 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 January 10, 2013, 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's financial statements as a whole. The combining fund statements 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/or the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the 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
January 10, 2013

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, 2012

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
ASSETS	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**	**Trust and Agency**	**General Long-Term Debt**	**June 30, 2012**
Cash and Cash Equivalents	$ 451,581	$ 58,796	$ 38,427	$ 4,050	$ 48,874	$ 0	$ 601,728
Investments	0	0	0	0	0	0	0
Amounts Available in Debt Service Fund	0	0	0	0	0	38,427	38,427
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	206,573	206,573
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	66,500	66,500
Total Assets	$ 451,581	$ 58,796	$ 38,427	$ 4,050	$ 48,874	$ 311,500	$ 913,228
LIABILITIES AND FUND BALANCE							
Liabilities:							
Warrants Payable	$ 111,603	$ 23,202	$ 0	$ 0	$ 0	$ 0	$ 134,805
Reserve for Encumbrances	2,216	656	0	0	0	0	2,872
Due to Activity Groups	0	0	0	0	48,874	0	48,874
General Obligation Bonds Payable	0	0	0	0	0	245,000	245,000
Capitalized Lease Obligations Payable	0	0	0	0	0	66,500	66,500
Total Liabilities	$ 113,819	$ 23,858	$ 0	$ 0	$ 48,874	$ 311,500	$ 498,051
Fund Equity:							
Reserved for Debt Service	$ 0	$ 0	$ 38,427	$ 0	$ 0	$ 0	$ 38,427
Reserved for Capital Projects	0	0	0	4,050	0	0	4,050
Cash Fund Balance	337,762	34,938	0	0	0	0	372,701
Total Fund Equity	$ 337,762	$ 34,938	$ 38,427	$ 4,050	$ 0	$ 0	$ 415,177
Total Liabilities and Fund Equity	$ 451,581	$ 58,796	$ 38,427	$ 4,050	$ 48,874	$ 311,500	$ 913,228

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 Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ending June 30, 2012

	Governmental Fund Types				Totals (Memorandum Only)
Revenue Collected:	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**	**June 30, 2012**
Local Sources	$ 349,229	$ 89,924	$ 40,306	$ 6	$ 479,465
Intermediate Sources	31,316	13	7	0	31,337
State Sources	1,283,364	67,988	0	0	1,351,352
Federal Sources	188,502	86,492	0	0	274,994
Non-Revenue Receipts	0	0	0	0	0
Total Revenue Collected	$ 1,852,411	$ 244,418	$ 40,313	$ 6	$ 2,137,148
Expenditures Paid:					
Instruction	$ 1,127,540	$ 95,975	$ 0	$ 0	$ 1,223,515
Support Services	667,477	56,176	0	0	723,654
Operation of Non-Instructional Services	36,286	130,433	0	0	166,719
Facilities Acquisition and Construction	0	0	0	0	0
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	100	0	0	0	100
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	35,000	0	35,000
Interest and Fiscal Agent Fees	0	0	9,783	0	9,783
Total Expenditures Paid	$ 1,831,404	$ 282,584	$ 44,783	$ 0	$ 2,158,770
Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances	$ 21,007	$ (38,166)	$ (4,470)	$ 6	$ (21,622)
Adjustments to Prior Year Encumbrances	$ 0	$ 0	$ 0	$ 0	$ 0
Other Financing Sources (Uses):					
Estopped Warrants	$ 429	$ 27	$ 0	$ 50	$ 507
Bond Proceeds	0	0	0	0	0
Transfers In	0	34,719	0	0	34,719
Transfers Out	(200)	0	0	0	(200)
Total Other Financing Sources (Uses)	$ 229	$ 34,747	$ 0	$ 50	$ 35,026
Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)	$ 21,237	$ (3,419)	$ (4,470)	$ 56	$ 13,404
Fund Balance - Beginning of Year	316,526	38,357	42,896	3,993	401,773
Fund Balance - End of Year	$ 337,762	$ 34,938	$ 38,427	$ 4,050	$ 415,177

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, 2012

	General Fund			Special Revenue Funds			Debt Service Fund		
Revenue Collected:	**Original Budget**	**Final Budget**	**Actual**	**Original Budget**	**Final Budget**	**Actual**	**Original Budget**	**Final Budget**	**Actual**
Local Sources	$ 287,435	$ 287,435	$ 349,229	$ 84,009	$ 84,009	$ 89,924	$ 38,298	$ 38,298	$ 40,313
Intermediate Sources	21,500	21,500	31,316	0	0	13	0	0	0
State Sources	1,201,209	1,201,209	1,283,364	64,331	64,331	67,988	0	0	0
Federal Sources	169,349	169,349	188,502	70,800	70,800	86,492	0	0	0
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
Total Revenue Collected	$ 1,679,493	$ 1,679,493	$ 1,852,411	$ 219,140	$ 219,140	$ 244,418	$ 38,298	$ 38,298	$ 40,313
Expenditures Paid:									
Instruction	$ 1,996,019	$ 1,996,019	$ 1,127,540	$ 100,000	$ 100,000	$ 95,975	$ 0	$ 0	$ 0
Support Services	0	0	667,477	57,052	57,052	56,176	0	0	0
Operation of Non-Instructional Services	0	0	36,286	130,445	130,445	130,433	0	0	0
Facilities Acquisition and Construction	0	0	0	0	0	0	0	0	0
Other Outlays	0	0	0	0	0	0	81,194	81,194	44,783
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	100	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	0	0	0	0
Total Expenditures Paid	$ 1,996,019	$ 1,996,019	$ 1,831,404	$ 287,497	$ 287,497	$ 282,584	$ 81,194	$ 81,194	$ 44,783
Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances	$ (316,526)	$ (316,526)	$ 21,007	$ (68,357)	$ (68,357)	$ (38,166)	$ (42,896)	$ (42,896)	$ (4,470)
Adjustments to Prior Year Encumbrances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Other Financing Sources (Uses):									
Estopped Warrants	$ 0	$ 0	$ 429	$ 0	$ 0	$ 27	$ 0	$ 0	$ 0
Transfers In	0	0	0	30,000	30,000	34,719	0	0	0
Transfers Out	0	0	(200)	0	0	0	0	0	0
Total Other Financing Sources (Uses)	$ 0	$ 0	$ 229	$ 30,000	$ 30,000	$ 34,747	$ 0	$ 0	$ 0
Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)	$ (316,526)	$ (316,526)	$ 21,237	$ (38,357)	$ (38,357)	$ (3,419)	$ (42,896)	$ (42,896)	$ (4,470)
Fund Balance - Beginning of Year	316,526	316,526	316,526	38,357	38,357	38,357	42,896	42,896	42,896
Fund Balance - End of Year	$ (0)	$ (0)	$ 337,762	$ 0	$ 0	$ 34,938	$ 0	$ 0	$ 38,427

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

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."

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.

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:

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 2States 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.

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, 2012, 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.

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, 2012:

			Carrying Value
Deposits			
Demand Deposits		$	603,977
Time Deposits			0
Total Deposits		$	603,977
Investments			
	Credit Rating	Maturity	Fair Value
		$	0
Total Investments		$	0
Reconciliation to the Combined Statement of Assets, Liabilities and Equity			
Cash and Cash Equivalents		$	601,728
Activity Fund Outstanding Checks			2,249
Total Deposits and Investments		$	603,977

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.

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, 2012, 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, 2012, 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 it 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.

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, 2012, 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, 2012:

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2011	280,000	0	0	280,000
Additions	0	66,500	0	66,500
Retirements	(35,000)	-	0	(35,000)
Balance, June 30, 2012	245,000	66,500	0	311,500

A brief description of the outstanding general obligation bond issues at June 30, 2012 is set forth below:

	Interest Rate	Maturity Date	Amount Issued	Amount Outstanding
2009 Building Bonds	2.75-4.10%	May 1, 2019	$ 300,000	$ 245,000
Totals			**$ 300,000**	**$ 245,000**

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:

	Principal	Interest	Total
2009 Building Bonds			
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	**$ 245,000**	**$ 36,084**	**$ 281,084**
Total Bonds	**$ 245,000**	**$ 36,084**	**$ 281,084**

Interest expense on bonds payable incurred during the current year totaled $9,782.50.

The District has entered into lease agreements for financing the acquisition of a gym roof and central heat and air. These lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease terms and they have been recorded at the present value of the future minimum lease payments. These leases contain a clause which gives the District the ability to terminate the lease agreements at the end of each fiscal year.

As noted in Note 1 to the financial statements, the District does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the above assets as assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the general long-term debt account group for the above lease.

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending June 30	Gym Roof	Central Heat & Air	Total
2013	$ 13,013	$ 17,202	$ 30,215
2014	13,013	17,202	30,215
2015	13,013	0	13,013
Total	$ 39,039	$ 34,404	$ 73,443
Less: Amount Representing Interest	(4,039)	(2,904)	(6,943)
Present Value of Future Minimum Lease Payments	$ 35,000	$ 31,500	$ 66,500

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 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, 2012. 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, 2012, 2011 and 2010 were $107,850, $101,581 and $104,275 respectively.

The compensation for employees covered by the System for the year ended June 30, 2012 was $1,134,872; the District's total compensation was $1,408,155. In addition to the District's 9.50% contributions, the District was required to pay into the System 7.00% of compensation arising from federal grants ($9,505) and 9.50% of compensation arising from post retirement employees ($0). There were $56,958 contributions made by employees during the year ended June 30, 2012.

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, 2011, is as follows:

Total pension obligation	$ 17,560,754,452
Net assets available for benefits, at cost	9,960,576,151
Nonfunded pension benefit obligation	$ 7,600,178,301

Note 4 - Employee Retirement System, (continued)

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, 2011. 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.

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, 2011 to June 30, 2012.

The encumbrance clerk/minutes clerk is bonded by Western Surety Company bond Number70507912 for the penal sum of $100,000 for the term of July 1, 2011 to June 30, 2012.

The superintendent is bonded by Western Surety Company Bond #70794025 for the penal sum of $100,000 for the term July 1, 2011 to June 30, 2012.

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, 2012

ASSETS	**Building Fund**	**Child Nutrition Fund**	**Coop Fund**	**Total June 30, 2012**
Cash and Cash Equivalents	$ 8,789	$ 25,620	$ 24,388	$ 58,796
Investments	0	0	0	0
Total Assets	$ 8,789	$ 25,620	$ 24,388	$ 58,796
LIABILITIES AND FUND BALANCE				
Liabilities:				
Warrants Payable	$ 2,190	$ 5,066	$ 15,945	$ 23,202
Reserve for Encumbrances	42	0	614	656
Total Liabilities	$ 2,233	$ 5,066	$ 16,559	$ 23,858
Fund Balance:				
Cash Fund Balance	$ 6,556	$ 20,554	$ 7,829	$ 34,938
Total Fund Balance	$ 6,556	$ 20,554	$ 7,829	$ 34,938
Total Liabilities and Fund Balance	$ 8,789	$ 25,620	$ 24,388	$ 58,796

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, 2012

	Building Fund	Child Nutrition Fund	Cooperative Fund	Total June 30, 2012
Revenue Collected:				
Local Sources	$ 44,622	$ 679	$ 44,623	$ 89,924
Intermediate Sources	13	0	0	13
State Sources	5,394	9,124	53,470	67,988
Federal Sources	0	86,492	0	86,492
Non-Revenue Receipts	0	0	0	0
Total Revenue Collected	$ 50,029	$ 96,295	$ 98,093	$ 244,418
Expenditures Paid:				
Instruction	$ 0	$ 0	$ 95,975	$ 95,975
Support Services	54,678	0	1,498	56,176
Operation of Non-Instructional Services	0	130,433	0	130,433
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	0	0	0	0
Total Expenditures Paid	$ 54,678	$ 130,433	$ 97,473	$ 282,584
Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances	$ (4,648)	$ (34,138)	$ 620	$ (38,166)
Adjustments to Prior Year Encumbrances	$ 0	$ 0	$ 0	$ 0
Other Financing Sources (Uses):				
Estopped Warrants	$ (0)	$ 27	$ 0	$ 27
Transfers In	0	34,719	0	34,719
Transfers Out	0	0	0	0
Total Other Financing Sources (Uses)	$ (0)	$ 34,747	$ 0	$ 34,747
Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)	$ (4,648)	$ 609	$ 620	$ (3,419)
Fund Balance - Beginning of Year	11,204	19,945	7,208	38,357
Fund Balance - End of Year	$ 6,556	$ 20,554	$ 7,829	$ 34,938

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, 2012

	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	$ 40,548	$ 40,548	$ 44,622	$ 43,461	$ 43,461	$ 44,623	$ 0	$ 0	$ 679	$ 84,009	$ 84,009	$ 89,924
Intermediate Sources	0	0	13	0	0	0	0	0	0	0	0	13
State Sources	5,300	5,300	5,394	49,331	49,331	53,470	9,700	9,700	9,124	64,331	64,331	67,988
Federal Sources	0	0	0	0	0	0	70,800	70,800	86,492	70,800	70,800	86,492
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue Collected	$ 45,848	$ 45,848	$ 50,029	$ 92,792	$ 92,792	$ 98,093	$ 80,500	$ 80,500	$ 96,295	$ 219,140	$ 219,140	$ 244,418
Expenditures Paid:												
Instruction	$ 0	$ 0	$ 0	$ 100,000	$ 100,000	$ 95,975	$ 0	$ 0	$ 0	$ 100,000	$ 100,000	$ 95,975
Support Services	57,052	57,052	54,678	0	0	1,498	0	0	0	57,052	57,052	56,176
Operation of Non-Instructional Services	0	0	0	0	0	0	130,445	130,445	130,433	130,445	130,445	130,433
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	0	0	0	0	0	0	0	0	0	0
Total Expenditures Paid	$ 57,052	$ 57,052	$ 54,678	$ 100,000	$ 100,000	$ 97,473	$ 130,445	$ 130,445	$ 130,433	$ 287,497	$ 287,497	$ 282,584
Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances	$ (11,204)	$ (11,204)	$ (4,648)	$ (7,208)	$ (7,208)	$ 620	$ (49,945)	$ (49,945)	$ (34,138)	$ (68,357)	$ (68,357)	$ (38,166)
Adjustments to Prior Year Encumbrances	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Other Financing Sources (Uses):												
Estopped Warrants	$ 0	$ 0	$ (0)	$ 0	$ 0	$ 0	$ 0	$ 0	$ 27	$ 0	$ 0	$ 27
Transfers In	0	0	0	0	0	0	30,000	30,000	34,719	30,000	30,000	34,719
Transfers Out	0	0	0	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	$ 0	$ 0	$ (0)	$ 0	$ 0	$ 0	$ 30,000	$ 30,000	$ 34,747	$ 30,000	$ 30,000	$ 34,747
Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)	$ (11,204)	$ (11,204)	$ (4,648)	$ (7,208)	$ (7,208)	$ 620	$ (19,945)	$ (19,945)	$ 609	$ (38,357)	$ (38,357)	$ (3,419)
Fund Balance - Beginning of Year	11,204	11,204	11,204	7,208	7,208	7,208	19,945	19,945	19,945	38,357	38,357	38,357
Fund Balance - End of Year	$ (0)	$ (0)	$ 6,556	$ 0	$ 0	$ 7,829	$ 0	$ 0	$ 20,554	$ 0	$ 0	$ 34,938

Exhibit A-3

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, 2012

ASSETS	**School Activity Fund**
Cash	$ 48,874
Investments	0
Total Assets	$ 48,874

LIABILITIES AND FUND EQUITY	
Liabilities:	
Due To Activity Groups	$ 48,874
Total Liabilities	$ 48,874
Fund Equity:	
Unreserved/Undesignated	$ 0
Total Liabilities and Fund Equity	$ 48,874

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, 2012

ACTIVITIES	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Athletics	$ 15,533	$ 41,319	$ 44,321	$ 12,531
Baseball	3,791	3,646	2,505	4,931
Softball	2,410	6,860	7,114	2,155
General	760	2,413	2,509	664
Seniors	100	1,375	615	860
Juniors	350	16,343	16,693	0
Library	2,518	5,194	5,543	2,169
Secondary	508	3,071	2,311	1,268
FFA	996	22,104	21,353	1,747
FHA	93	0	0	93
Student Council	1,133	0	529	604
Industrial Arts	5,576	4,593	3,544	6,626
Concession	564	20,205	20,369	400
Annual	969	6,232	6,862	339
Pep Club	584	5,934	4,839	1,679
Science	202	0	0	202
Music	4,496	470	2,630	2,336
Elementary	8,740	6,366	5,983	9,122
Petty	0	200	200	0
Lunch	0	34,719	34,719	0
Academic	3,872	0	3,722	151
Special Education	6	0	0	6
Art	989	0	0	989
Total Activities	$ 54,189	$ 181,045	$ 186,361	$ 48,874

Exhibit A-5

GRANITE INDEPENDENT SCHOOL DISTRICT NO. 3, GREER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title		Federal CFDA#	Grantor's Number	Payables (Receivables/) Balance at June 30, 2011	Receipts	Expenditures	Payables (Receivables/) Balance at June 30, 2012
U.S. Department of Education							
Direct Programs:							
Title VI, Subpart 1, Small Rural School A	(Note3)	84.358A	588	0	19,397	19,397	0
Passed Through State Department of Education:							
Title I, Part A, Basic		84.010	511	0	37,060	37,060	0
ARRA Title I, Basic		84.389	516	(10,744)	10,744	0	0
Title I Cluster				(10,744)	47,804	37,060	0
IDEA-B Flowthrough		84.027	621	0	76,113	76,113	0
ARRA IDEA-B Flow Through		84.391A	622	(8,096)	8,096	0	0
IDEA-B Preschool		84.173	641	0	2,323	2,323	0
Special Education Cluster				(8,096)	86,532	78,436	0
Title II, Part A, Teacher & Principal Training		84.367	586	0	13,277	13,277	0
Education JOBS Fund		84.410	790	(21,492)	21,492	0	0
Total U.S. Department of Education				**(40,333)**	**188,502**	**148,169**	**0**
U.S. Department of Agriculture							
Passed Through State Department of Education:							
Child Nutrition Cluster:							
School Breakfast Program		10.553	764	0	24,266	24,266	0
National School Lunch Program		10.555	763	0	62,226	56,218	6,008
Commodities Distributed - Lunch	(Note 2)	10.555	N/A	0	7,185	7,185	0
Total for Child Nutrition Cluster:				0	93,677	87,670	6,008
Total U.S. Department of Agriculture				**0**	**93,677**	**87,670**	**6,008**
TOTAL FEDERAL ASSISTANCE				**(40,333)**	**282,179**	**235,839**	**6,008**

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 - Commodities received in the amount of $7,185 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 3 - The District coded this revenue to Project Code 000 Source Code 4689 on their OCAS data submitted to the State Dept of Education.

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	0	0
ARRA IDEA-B Flow Through	84.391A	622	8,096	0	0
Total ARRA Funds			18,841	0	0

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CERTIFIED PUBLIC ACCOUNTANTS

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**, Greer County, Oklahoma, as of and for the year ended June 30, 2012, 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 January 10, 2013. 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

Management of **Granite Independent School District #3**, Greer County, Oklahoma, is responsible for establishing and maintaining effective 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 that 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.

2012-1 Finding

Statement of Condition - .As noted on the prior year's audits, 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 reconciliation.

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. Starting with the 2012-13 year, the activity fund custodian no longer signs checks.

2012-2 – Finding

Statement of Condition – The treasurer coded $19,397 of Small Rural School (federal grant) to project source code 000-4689. It should have been coded project source code 588-4180 to match with the expenditures they coded.

Criteria - State regulations require federal revenues and expenditures be tracked using project codes.

Cause/Effect of Condition – Employees in charge of coding failed to use the proper project codes.

Recommendation – Care should be taken to ensure that proper project codes are used to track federal revenue and expenditures.

2012-3 – Finding

Statement of Condition – During our testing of payroll, we note the following:

- Time sheets are not being signed by a supervisor.
- Some support employees are not filling our time sheets (payroll clerk and treasurer). These positions do not appear to be exempt under the *Fair Labor Standards Act (*FLSA).
- There was one employee who works at head start that is paid $8.00/hour as a teacher assistant. She was paid from time sheets, however, no contract was executed between the district and the employee.

Criteria – All nonexempt employees should fill out time sheets for all hours worked. These time sheets should be signed by the supervisor and the employee prior to a warrant being issued. Oklahoma State Statutes require payments in excess of $500 be accompanied by a signed contract or purchase order.

Cause/Effect of Condition – Management and employees in charge of payroll were not aware of these requirements. Unauthorized payments could be made if procedures are not implemented to correct these conditions. Also, the district could be held responsible for not paying overtime on non-exempt employees.

Recommendation – We recommend all non-exempt employees fill out time sheets. The employee and a supervisor (verifying work was performed) should sign the time sheets prior to payment being made. Employees paid more than $500 in a fiscal year, should have a contract on file signed the employee and the board of education.

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 is described on the attached Corrective Action Plan. 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 Independent School District #3**, 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.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
January 10, 2013

OTHER INFORMATION

Granite ISD No. 3, Greer County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2012

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 2011-2012.

ANGEL, JOHNSTON, & BLASINGAME, P.C.

Darrel Johnston

by _____

Subscribed and sworn to before me this _____ day of _____, 2013

_____
Notary Public

My Commission Expires 11-12-16

Granite ISD No. 3, Greer County
Disposition of Prior Year Audit Exceptions
Year Ended June 30, 2012

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.

Current Status – This was corrected during the 2012-13 fiscal year.

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.

Current Status – We did not note any payments for extra duty that were not documented by an extra duty contract for the 2011-12 year.

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.

Current Status – The district started reconciling the gate proceeds to tickets issued during the 2011-12 year; however, they were not signed by the two individuals performing the reconciliation.

SCHOOL'S CORRECTIVE ACTION PLAN

Granite Public School

P.O. Box 98
Granite, OK 73547
(580) 535-2104 – Fax (580) 535-2106

Granite Public School
Greer County

Audit Findings
Corrective Action Plan

Audit Year 2011-2012

Audit Finding Reference Number: 2012-1

Description of 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 the reconciliation.
Contact Person: Wade Stafford
Steps Implemented: The following steps have been implemented after the November 19, 2012, on site audit. The activity fund custodian does not receive the money, prepare the deposits, or take the money to the bank. The activity fund custodian is no longer one of the authorized signatures on the checks.
Completion Date: November 19, 2012

Audit Finding Reference Number: 2012-2

Description of Finding: The treasurer coded $19,397 of Small Rural School (federal grant) to project source code 000-4689. It should have been coded project source code 588-4180 to match with the expenditures they coded.
Contact Person: Carol New
Steps Implemented: The treasurer, encumbrance clerk and superintendent working together and serving as a system of checks and balances for each other will reduce the chances of future coding errors.
Completion Date: November 19, 2012

Audit Finding Reference Number: 2012-3

Description of Finding: Not all support employees were completing time sheets and time sheets were not being signed by a supervisor. One employee was paid from time sheets but did not have a contract.
Contact Person: Wade Stafford
Steps Implemented: All support employees will complete monthly time sheets that will be signed by the superintendent. All employees that are paid more $500 a year will have an contract on file signed by the employee and the board of education.
Completion Date: December 21, 2012