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

**GROVE INDEPENDENT SCHOOL DISTRICT NO. 1-2,  
DELAWARE COUNTY, OKLAHOMA**

**JUNE 30, 2011**

Audited by

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

**BROKEN ARROW, OK**

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011

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INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page No.</u>
School District Officials	2
Table of Contents	3-4
Independent Auditor's Report	5-6
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements - Regulatory Basis Performed in Accordance with Government Auditing Standards	7-8
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	9-10
Disposition of Prior Year's Reportable Conditions and Material Instances of Non-Compliance	11
Schedule of Audit Results, Findings and Questioned Cost	12
<b>Combined Financial Statements – Regulatory Basis</b>	
Combined Statement of Assets, Liabilities and Fund Equity – All Fund Types and Account Groups – Regulatory Basis	13
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Governmental Fund Types – Regulatory Basis	14
Combined Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual – Budgeted Governmental Fund Types – Regulatory Basis	15-17
<b>Notes to Combined Financial Statements - Regulatory Basis</b>	18-33
Combining Statement of Assets, liabilities and fund Equity – All Special Revenue Funds – Regulatory Basis	34

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
JUNE 30, 2011

Page No.

**Combining Financial Statements – Regulatory Basis**

Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – Budget and Actual - Special Revenue Fund Types – Regulatory Basis	35
Combining Statement of Assets, Liabilities and Fund Equity – All Capital Project Funds – Regulatory Basis	36
Combining Statement of Revenues Collected, Expenditures and Changes in Cash Fund Balances – All Capital Project Funds – Regulatory Basis	37
Combining Statement of Changes in Assets and Liabilities – All Agency Funds – Regulatory Basis	38-39
Schedule of Expenditures of Federal Awards – Regulatory Basis	40
Schedule of Statutory, Fidelity and Honesty Bonds	41
Schedule of Accountant’s Professional Liability Insurance Affidavit	42



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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Board of Education  
Grove School District No. I-2  
Grove, Oklahoma

We have audited the accompanying fund type and account group financial statements of Grove School District No. I-2 (the District), Delaware County, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements – regulatory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements – regulatory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement – regulatory basis presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

October 13, 2011



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

The Honorable Board of Education  
Grove School District No. I-2  
Grove, Oklahoma

We have audited the combined financial statements – regulatory basis of Grove School District (the District) No. I-2, Grove, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated October 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial matters that we reported to management of the District in a separate letter dated October 13, 2011.

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

October 13, 2011



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

The Honorable Board of Education  
Grove School District No. I-2  
Grove, Oklahoma

Compliance

We have audited Grove School District (the District) No. I-2, Grove, Oklahoma's, compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District's complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

### Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

October 13, 2011

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2011

There were no prior year reportable conditions.

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2011

**Section 1** – Summary of Auditor’s Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.
4. The audit disclosed no significant deficiencies in the internal controls over major programs.
5. An unqualified opinion report was issued on the compliance of major programs.
6. The audit disclosed no audit findings which are required to be reported under OMB Circular A-133 § 510(a).
7. Programs determined to be major are the IDEA-B Special Education Programs (84.027, 84.173, 84.391, 84.392), the Title I Programs (84.010, 84.013, 84.389), the State Fiscal Stabilization Funds/ED Jobs (84.394, 84.410), and the Child Nutrition Programs (10.553, 10-555, 10.565) which were clustered in determination.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The auditee was determined not to be a low-risk auditee.

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

NONE

**Section 3** – Findings and questioned costs for federal awards:

NONE

**COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES  
 - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUSTS - REGULATORY BASIS  
 JUNE 30, 2011

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS			
Cash	\$ 2,572,801	576,943	2,260,380	3,921,207	279,618		9,610,949
Amounts available in debt service						30,484	30,484
Amount to be provided for retirement of long term debt						15,581,097	15,581,097
Total Assets	\$ 2,572,801	576,943	2,260,380	3,921,207	279,618	15,611,581	25,222,530

ASSETS

LIABILITIES AND FUND EQUITY

Liabilities:							
Warrants payable	\$ 857,600	123,933		804,977			1,786,510
Encumbrances	39,406	71,443		4,210			115,059
Unmatured obligations			2,229,896				2,229,896
Funds held for school organizations					279,618		279,618
Long-term debt -							
Capital leases						516,581	516,581
Bonds payable						15,095,000	15,095,000
Total liabilities	897,006	195,376	2,229,896	809,187	279,618	15,611,581	20,022,664
Fund Equity:							
Cash fund balances	1,675,795	381,567	30,484	3,112,020	0		5,199,866
Total Liabilities and Fund Equity	\$ 2,572,801	576,943	2,260,380	3,921,207	279,618	15,611,581	25,222,530

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

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES  
 - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GOVERNMENTAL FUND TYPES				TOTALS (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	CAPITAL PROJECTS	DEBT SERVICE	
Revenues Collected:					
Local sources	\$ 6,463,036	1,167,191		2,400,980	10,031,207
Intermediate sources	542,278				542,278
State sources	6,402,981	133,711			6,536,692
Federal sources	2,768,701	791,545			3,560,246
Interest earnings	23,036				23,036
Non-revenue receipts	16,916	3,250			20,166
Total revenues collected	<u>16,216,948</u>	<u>2,095,697</u>	<u>0</u>	<u>2,400,980</u>	<u>20,713,625</u>
Expenditures:					
Instruction	10,284,819		34,004		10,318,823
Support services	4,866,279	812,457	1,092		5,679,828
Operation of non-instructional services		1,130,336			1,130,336
Facilities acquisition & construction services		45,091	5,757,758		5,802,849
Other outlays:					
Debt service requirements				2,440,468	2,440,468
Reimbursement	21,955	200			22,155
Correcting entry		327			327
Repayments	8,288	921			9,209
Total expenditures	<u>15,181,341</u>	<u>1,989,332</u>	<u>5,792,854</u>	<u>2,440,468</u>	<u>25,403,995</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	1,035,607	106,365	(5,792,854)	(39,488)	(4,690,370)
Other financing sources (uses):					
Adjustments to prior year encumbrances	17,233	18,860	576,360		612,453
Total other financing sources (uses)	<u>17,233</u>	<u>18,860</u>	<u>576,360</u>	<u>0</u>	<u>612,453</u>
Excess of revenues collected over (under) expenditures	1,052,840	125,225	(5,216,494)	(39,488)	(4,077,917)
Cash fund balances, beginning of year	<u>622,955</u>	<u>256,342</u>	<u>8,328,514</u>	<u>69,972</u>	<u>9,277,783</u>
Cash fund balances, end of year	<u>\$ 1,675,795</u>	<u>381,567</u>	<u>3,112,020</u>	<u>30,484</u>	<u>5,199,866</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 5,758,688	5,758,688	6,463,036	704,348
Intermediate sources	479,748	479,748	542,278	62,530
State sources	6,580,168	6,580,168	6,402,981	(177,187)
Federal sources	2,255,431	2,255,431	2,768,701	513,270
Interest earnings			23,036	23,036
Non-revenue receipts			16,916	16,916
Total revenues collected	15,074,035	15,074,035	16,216,948	1,142,913
Expenditures:				
Instruction	10,583,365	10,583,365	10,284,819	298,546
Support services	5,000,404	5,000,404	4,866,279	134,125
Other outlays:				
Reimbursements	1,665	1,665	21,955	(20,290)
Indirect cost entitlement	45,646	45,646		45,646
Correcting entry	732	732		732
Other uses	37,082	37,082		37,082
Repayments	28,096	28,096	8,288	19,808
Total expenditures	15,696,990	15,696,990	15,181,341	515,649
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(622,955)	(622,955)	1,035,607	1,658,562
Adjustments to prior year encumbrances	0	0	17,233	17,233
Excess of revenue collected over (under) expenditures	(622,955)	(622,955)	1,052,840	1,675,795
Cash fund balance, beginning of year	622,955	622,955	622,955	0
Cash fund balance, end of year	\$ 0	0	1,675,795	1,675,795

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUNDS			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues Collected:</b>				
Local sources	\$ 1,097,917	1,097,917	1,167,191	69,274
State sources	99,111	99,111	133,711	34,600
Federal sources	731,133	778,133	791,545	13,412
Non-revenue receipts			3,250	3,250
Total revenues collected	<u>1,928,161</u>	<u>1,975,161</u>	<u>2,095,697</u>	<u>120,536</u>
<b>Expenditures:</b>				
Support services	941,560	941,560	812,457	129,103
Operation of non-instructional services	1,171,516	1,218,516	1,130,336	88,180
Facilities acquisition & construction services	68,900	68,900	45,091	23,809
Other outlays:				
Reimbursement	200	200	200	
Correcting entry	327	327	327	0
Repayments	2,000	2,000	921	1,079
Total expenditures	<u>2,184,503</u>	<u>2,231,503</u>	<u>1,989,332</u>	<u>242,171</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(256,342)	(256,342)	106,365	362,707
Adjustments to prior year encumbrances	<u>0</u>	<u>0</u>	<u>18,860</u>	<u>18,860</u>
Excess of revenues collected over (under) expenditures	(256,342)	(256,342)	125,225	381,567
Cash fund balance, beginning of year	<u>256,342</u>	<u>256,342</u>	<u>256,342</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>381,567</u>	<u>381,567</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGET AND ACTUAL -  
 BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	DEBT SERVICE FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	\$ 2,370,496	2,400,980	30,484
Total revenues collected	<u>2,370,496</u>	<u>2,400,980</u>	<u>30,484</u>
Requirements:			
Bonds	1,899,444	1,899,444	
Coupons	541,024	541,024	
Total expenditures	<u>2,440,468</u>	<u>2,440,468</u>	<u>0</u>
Excess of revenues collected over (under) expenditures	(69,972)	(39,488)	30,484
Cash fund balance, beginning of year	<u>69,972</u>	<u>69,972</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>30,484</u>	<u>30,484</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Grove Public Schools Independent District No. I-2 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

**A. Reporting Entity**

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**B. Fund Accounting**

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

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

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

**Governmental Fund Types**

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

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

Special Revenue Funds – Special revenue funds include the District’s building, co-op and child nutrition funds. The District did not maintain a co-op fund during the 2010-11 fiscal year.

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

**B. Fund Accounting - cont’d**

Co-op Fund – The co-op fund is established when the boards of education of two or more school districts enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school districts. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs.

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

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

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

**Fiduciary Fund Types**

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

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintain any expendable trust funds during the 2010-11 fiscal year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the District.

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – cont’d

B. Fund Accounting – cont’d

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

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

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

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

**Account Groups**

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

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

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

**Memorandum Only - Total Column**

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**C. Basis of Accounting**

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

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

C. Basis of Accounting – cont'd

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

D. Budgets and Budgetary Accounting

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

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

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

<u>Fund</u>	<u>Total</u>
Child Nutrition	\$ 47,000

These amendments were approved by the county excise board.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest savings), and no control over its expenditures.

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**E. Assets, Liabilities and Fund Equity**

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

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

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

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

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

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

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

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

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

**F. Revenue and Expenditures**

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures – cont'd**

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

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

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

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

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

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

The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains their child nutrition program from within their general fund, as a separate project for tracking purposes.

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures – cont'd**

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

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**F. Revenue and Expenditures – cont'd**

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. There were no residual equity transfers during the 2010-11 fiscal year.

**2. CASH AND INVESTMENTS**

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2011, was \$8,440,690. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2011, the District had no outstanding investments.

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

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

**3. INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund receivables or payables at June 30, 2011.

**4. GENERAL LONG-TERM DEBT**

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

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

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

	Bonds Payable	Capital Leases	Total
Balance, July 1, 2010	\$ 15,965,000	677,030	16,642,030
Retirements	(870,000)	(160,449)	(1,030,449)
Balance, June 30, 2011	\$ 15,095,000	516,581	15,611,581

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

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Building Bonds, Series 2006, original issue \$7,400,000, interest rate of 3.75% to 5.95%, due in annual installments of \$870,000, final payment of \$870,000, due 7-01-16	\$ 5,220,000

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

**4. GENERAL LONG-TERM DEBT – cont'd**

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

	<u>Amount Outstanding</u>
<u>General Obligation Bonds:</u>	
Transportation Bonds, Series 2011, original issue \$225,000, interest rate of 1.75% to 3.5%, due in annual installments of \$85,000, final payment of \$85,000, due 1-01-14	\$ 225,000
Building Bonds, Series 2011, original issue \$5,155,000, interest rate of 1.18% to 3.2%, due in annual installments of \$585,000, final payment of \$585,000, due 1-01-20	5,155,000
Building Bonds, Series 2011, original issue \$4,495,000, interest rate of 1.4% to 3%, due in annual installments of \$860,000, final payment of \$575,000, due 5-01-19	4,495,000
<u>Capital Leases:</u>	
Lease purchase for equipment, dated 6-14-07, payable in monthly principal and interest installments, final payment due 6-26-17	161,046
Lease purchase for buses, dated 4-19-07, payable in monthly principal and interest installments, final payment due 4-19-12	75,489
Lease purchase for buses, dated 9-14-09, payable in monthly principal and interest installments, final payment due 9-14-14	<u>280,046</u>
Total long-term debt	<u>\$ 15,611,581</u>

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

**4. GENERAL LONG-TERM DEBT – cont'd**

The annual debt service requirements for the retirement of principal and interest are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	2,127,011	435,985	2,562,996
2013	2,194,606	368,725	2,563,331
2014	2,197,846	309,426	2,507,272
2015	2,116,180	244,640	2,360,820
2016	2,070,938	214,926	2,285,864
2017-2019	4,905,000	309,310	5,214,310
Total	<u>\$ 15,611,581</u>	<u>1,883,012</u>	<u>17,494,593</u>

Interest paid on general long-term debt during the 2010-11 fiscal year totaled \$475,174.

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**5. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd**

when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2010-11 fiscal year, the District contributed 9.0% (which increased to 9.5% on January 1, 2011) and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Annual Pension Cost

The District's total contributions for 2011, 2010 and 2009, were \$1,605,206, \$1,698,762 and \$1,490,124 respectively.

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 become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

**6. RISK MANAGEMENT**

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

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**6. RISK MANAGEMENT – cont'd**

The District is a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

The School also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the School reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. As a member of OSAG, the District is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the District goes into a loss fund for the District. The fee for the loss fund is calculated by projecting losses based on the school's losses for the last five years. OSAG provides coverage in excess of the Loss Fund so the District's liability for claim loss is limited to the balance of the loss fund. If the District does not use its loss fund in three years, it is returned to the District with no interest.

**7. CONTINGENCIES**

Federal Grants

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

Litigation

The District's insurance provider, NAICO, is currently representing the District in two separate legal matters. The District appears to have a strong defense in both cases.

**COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY  
 ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 JUNE 30, 2011

	<u>BUILDING FUND</u>	<u>CHILD NUTRITION FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 396,907	180,036	576,943
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Warrants payable	\$ 82,080	41,853	123,933
Encumbrances	71,393	50	71,443
Total liabilities	<u>153,473</u>	<u>41,903</u>	<u>195,376</u>
Fund Equity:			
Cash fund balances	<u>243,434</u>	<u>138,133</u>	<u>381,567</u>
 Total Liabilities and Fund Equity	 <u>\$ 396,907</u>	 <u>180,036</u>	 <u>576,943</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - ALL SPECIAL REVENUE FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	BUILDING FUND			CHILD NUTRITION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues Collected:						
Local sources	\$ 822,670	822,670	894,005	\$ 275,247	275,247	273,186
State sources				99,111	99,111	133,711
Federal sources				731,133	778,133	791,545
Non revenue receipts			327			2,923
Total revenues collected	<u>822,670</u>	<u>822,670</u>	<u>894,332</u>	<u>1,105,491</u>	<u>1,152,491</u>	<u>1,201,365</u>
Expenditures:						
Support services	941,560	941,560	812,457			
Operation of non-instructional services				1,171,516	1,218,516	1,130,336
Facilities acquisition & construction services	68,900	68,900	45,091			
Other outlays:						
Reimbursement				200	200	200
Correcting entry	327	327	327			
Repayments				2,000	2,000	921
Total expenditures	<u>1,010,787</u>	<u>1,010,787</u>	<u>857,875</u>	<u>1,173,716</u>	<u>1,220,716</u>	<u>1,131,457</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(188,117)	(188,117)	36,457	(68,225)	(68,225)	69,908
Adjustments to prior year encumbrances	0	0	18,860	0	0	0
Excess of revenue collected over (under) expenditures	(188,117)	(188,117)	55,317	(68,225)	(68,225)	69,908
Cash fund balances, beginning of year	188,117	188,117	188,117	68,225	68,225	68,225
Cash fund balances, end of year	<u>\$ 0</u>	<u>0</u>	<u>243,434</u>	<u>\$ 0</u>	<u>0</u>	<u>138,133</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL CAPITAL PROJECT FUNDS - REGULATORY BASIS  
 JUNE 30, 2011

	2010 BUILDING BOND
<u>ASSETS</u>	
Cash	<u>\$ 3,921,207</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Warrants payable	\$ 804,977
Encumbrances	<u>4,210</u>
Total Liabilities	<u>809,187</u>
Fund Equity:	
Cash fund balances	<u>3,112,020</u>
Total Liabilities and Fund Equity	<u>\$ 3,921,207</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES  
 IN CASH FUND BALANCES - ALL CAPITAL PROJECT FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	2010 BUILDING BOND	2010 TRANSPORTATION BOND	TOTAL
Revenues Collected:			
Local sources	\$ 0	0	0
Expenditures:			
Instruction	34,004		34,004
Support services		1,092	1,092
Facilities acquisition & construction services	5,757,758		5,757,758
Total expenditures	5,791,762	1,092	5,792,854
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(5,791,762)	(1,092)	(5,792,854)
Other financing sources (uses):			
Adjustments to prior year encumbrances	576,360		576,360
Total	576,360	0	576,360
Excess of revenues collected over (under) expenditures	(5,215,402)	(1,092)	(5,216,494)
Cash fund balances, beginning of year	8,327,422	1,092	8,328,514
Cash fund balances, end of year	\$ 3,112,020	0	3,112,020

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	BALANCE 7-01-10	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-11
<u>ASSETS</u>					
Cash	\$ 249,004	891,530	0	860,916	279,618
<u>LIABILITIES</u>					
Funds held for school organizations:					
Football	\$ 9,280	11,115		9,202	11,193
Boys basketball	5,619	5,135		8,176	2,578
Girls basketball	5,395	8,629	(750)	7,156	6,118
Baseball	794	4,933		1,637	4,090
Softball	1,609	4,198		3,377	2,430
Wrestling	1,710	3,455		3,731	1,434
Boys Tennis	13	506		499	20
Girls tennis	62	690		470	282
Boys track	558	1,327		770	1,115
Girls track	385	1,111		961	535
Boys golf	17	1,043		557	503
Cross country	82	200		280	2
Varsity cheerleaders	3,045	29,939		28,719	4,265
Athletics	16,028	115,382	2,000	88,413	44,997
Girls soccer	284	0	750	195	839
Boys soccer	294	799		825	268
Freshman cheerleader	2	0		0	2
Middle school cheerleader	406	7,000		5,496	1,910
Girls golf	1,339	0		240	1,099
Athletic concession stand	19,569	28,246	(2,000)	31,417	14,398
Alumni	1,576	0		0	1,576
HS annual	7,617	18,538		21,515	4,640
Upper/MS annual	304	6,996		49	7,251
ECC/LE annual	283	8,575		6,808	2,050
Band	5,990	44,738		46,883	3,845
Bebee memorial fund	153	0		0	153
Bebee scholarship fund	222	0		200	22
MS Greenhouse	6,148	4,253		4,071	6,330
Class of 2008	0	2,204		1,120	1,084
Fifth grade	1,680	10,298		9,006	2,972
GMS career program	24	0		0	24
Class of 2010	284	20		0	304
Class of 2012	759	8,699		6,330	3,128
Class of 2013	437	561		368	630
Choir	74	15,869		15,532	411
Gifted/academic team	438	0		0	438
First grade	212	599		560	251
Upper elementary	23,846	43,784		38,132	29,498
Cody Tully memorial SC	500	0	500	500	500
HS AP program	2,272	4,094		4,290	2,076
FBLA	4,685	86		2,956	1,815
Class of 2011	7,204	645		2,454	5,395
FFA	13,700	48,192		53,250	8,642
FCCLA	424	5,655		5,950	129
Spanish club	1,338	0		0	1,338
Veteran's Day program	122	0		0	122
French club	307	577		490	394
HS National honor society	178	106		81	203
Graduate classes	1,776	0		0	1,776
Grove project	701	0		0	701
High school geffe	199	19,773		16,046	3,926

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 ALL AGENCY FUNDS - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2010

	BALANCE 7-01-10	ADDITIONS	NET TRANSFERS	DEDUCTIONS	BALANCE 6-30-11
High school library	1,099	1,363		2,231	231
Interest	5,803	284		2,888	3,199
Journalism	860	0		0	860
Masquers	478	6		302	182
Meton scholarship	2,012	0		1,500	512
Memorial scholarship	7,446	0		2,750	4,696
Third grade activity fund	259	0		0	259
Middle school	3,417	2,307		4,068	1,656
Middle school library	3,063	4,433		5,059	2,437
MS Arts in education	2	0		0	2
Second grade	0	969		969	0
MS Student Council	324	0		135	189
HS Creative writing	1,318	0		0	1,318
National Jr Honor Society	113	595		403	305
MS Creative write/Anth	515	0		0	515
HS Special ed	10	0		0	10
Fourth grade activity	2,034	1,310		1,375	1,969
HS Alumni brick plaza	165	0		0	165
MS Science fair	2,215	7,861		5,194	4,882
Walton/Arvest Bank Scholarshi	2,500	0		2,500	0
Independent sci research	3,178	1,243		4,268	153
Special olympics	6,856	6,897		5,670	8,083
HS Student council	1,357	3,194	(500)	3,225	826
Friends of the Library	0	1,000		1,000	0
Dan Jones Memorial Scholarsh	500	0		0	500
MS Masquers	36	0		0	36
Sharon Hicks Duff scholarship	55	0		0	55
LE elementary library	4,922	13,074		13,948	4,048
UE elementary library	3,157	3,605		3,984	2,778
Counselor's scholarship	8,436	8,000		10,250	6,186
Entrepreneurship	0	8,183		6,502	1,681
Character counts/com	632	1,347		370	1,609
MS Geffe	5,000	6,096		11,064	32
MS climate improvement	739	2,156		1,922	973
Cafeteria revenue	0	268,144		268,144	0
Maintenance - coke	117	0		0	117
Bus barn coke	455	0		353	102
UE Book replacement	322	0		0	322
MS/HS book replacement	2,437	694		217	2,914
LE book replacement	62	0		0	62
Lower elementary	7,932	14,644		9,900	12,676
LE Geffe	0	19,481		19,451	30
UE Geffe	0	2,422		2,240	182
EC Geffe	0	6,203		3,608	2,595
HS Student center	2,015	3,676		3,522	2,169
HS Student parking	828	683		448	1,063
Native AM. perform arts	1,776	0		0	1,776
EC Center	1,638	13,352		10,025	4,965
EC Library	1,507	7,365		7,065	1,807
ECC Playground	566	0		566	0
Gary Thompson Scholarship	5,420	1,890		1,000	6,310
The PI shop	249	3,581		3,084	746
Robotics team	3,735	6,682		10,004	413
Advanced placement env sci	500	820		500	820
Moose Lodge Scholarship	1,000	0		500	500
Total Liabilities	\$ 249,004	891,530	0	860,916	279,618

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REGULATORY BASIS**

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's No.	Program or Award Amount	Balance at 7/1/2010	Revenue Collected	Total Expenditures	Balance at 6/30/2011
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Indian Education	84.060	S060A090126	\$ 151,628		151,596	151,596	
Impact Aid Operations	84.041	S041B-2010-3973	49,630		49,630	49,630	
Sub Total			<u>201,258</u>	<u>0</u>	<u>201,226</u>	<u>201,226</u>	<u>0</u>
<u>Passed Through State Department of Education:</u>							
*Title I	84.010		526,026		486,235	492,315	6,080
*Title I, ARRA	84.389		143,879		109,693	143,879	34,186
*Title I, Part A Neglected	84.013		3,579		1,402	3,579	2,177
*Title I, Consolidated Funds - note	84.010			1,346	1,346		
Title II, Part A	84.367		59,029		39,416	45,586	6,170
Title II, Part D	84.318		3,817			3,817	3,817
Title II, Part D	84.318		1,529			1,529	1,529
Title VI, Part B - REAP	84.358		59,839		54,680	59,205	4,525
*IDEA-B flowthrough	84.027		438,769		379,423	383,172	3,749
*IDEA-B flowthrough ARRA	84.391		212,986		176,235	176,681	446
*IDEA-B inservice, ARRA - note	84.391			550	550		
*IDEA-B Early Intervening	84.027		84,483		70,068	70,068	
*IDEA-B Early Intervening ARRA	84.391		39,170		34,058	34,058	
*IDEA-B preschool	84.173		14,440		6,463	6,463	
*IDEA-B preschool ARRA	84.392		6,422		1,546	1,546	
Gear Up	84. n/a		13,500		13,500	13,500	
Consolidated Administrative Funds	84.394		37,082		37,082	37,082	
State Fiscal Stabilization Funds, GSF Textbook	84.397		90,517			90,517	
*Education JOBS	84.410		445,727		445,727	445,727	
*State Fiscal Stabilization Funds	84.397		524,949		524,949	524,949	
Sub Total			<u>2,705,743</u>	<u>1,896</u>	<u>2,382,373</u>	<u>2,533,673</u>	<u>62,679</u>
<u>Passed Through State Department of Career and Technology Education:</u>							
Carl Perkins grant	84.048		29,209	0	29,131	29,131	0
<u>Passed Through State Department of Education</u>							
<u>*Child Nutrition Programs:</u>							
School breakfast program	10.553				209,196	209,196	
National school lunch program	10.555				582,349	582,349	
Sub Total					<u>791,545</u>	<u>791,545</u>	
<u>Passed Through Department of Human Services</u>							
<u>*Non-cash assistance - commodities</u>							
National school lunch program - Note 1	10.555				72,509	72,509	
<u>Other Federal Assistance:</u>							
Johnson O'Malley	15.130		31,700		31,422	31,422	
Johnson O'Malley, 2008-09 - Note	15.130			6,537	6,537		
Rehab services	84.126		3,824		3,824	3,824	
Medicaid	93.774		114,187		114,187	114,187	
Sub Total			<u>149,711</u>	<u>6,537</u>	<u>155,970</u>	<u>149,433</u>	<u>0</u>
Total Federal Assistance			<u>\$ 3,085,921</u>	<u>8,433</u>	<u>3,632,754</u>	<u>3,777,517</u>	<u>62,679</u>

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

Note 1 - Commodities received by the District of \$72,509 are of a non-monetary nature and therefore total revenue does not agree with the financial statements by that amount

\* Major programs

INDEPENDENT SCHOOL DISTRICT NO. 1-2, DELAWARE COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2011

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
CNA Surety - Westen Surety Company	Activities Clerk	0601 68403340	\$ 5,000	12/01/10 - 12/01/11
	Athletic Director	0601 68403340	5,000	12/01/10 - 12/01/11
	Elementary Cafeteria Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Encumbrance Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Food Service Accounting Manager	0601 68403340	5,000	12/01/10 - 12/01/11
	Food Service Manager	0601 68403340	5,000	12/01/10 - 12/01/11
	High School Cafeteria Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Middle School Cafeteria Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Middle School Student Center Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Minutes Clerk	0601 68403340	5,000	12/01/10 - 12/01/11
	Principal	0601 68403340	5,000	12/01/10 - 12/01/11
	Superintendent	70760299	100,000	7/20/10 - 7/20/11
	Treasurer	16116030	100,000	7/01/10 - 6/30/11

INDEPENDENT SCHOOL DISTRICT NO. I-2, DELAWARE COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011

State of Oklahoma            )  
  ) ss  
County of Tulsa             )

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Grove Public Schools for the audit year 2010-11.

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

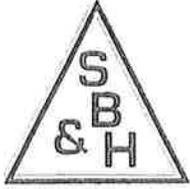
By Jeffrey D. Hewett  
Authorized Agent

Subscribed and sworn to before me  
This 13<sup>th</sup> day of October, 2011



Earlene Hart  
Notary Public (or Clerk or Judge)

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



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

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

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

October 13, 2011

Ms. Sandy Harper, Supt.  
Grove Public Schools  
P.O. Box 450789  
Grove, Oklahoma 74345

Dear Ms. Harper:

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

**No material exceptions observed.**

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

Sincerely,

Jeffrey D. Hewett

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP