

HOBART INDEPENDENT SCHOOL DISTRICT NO. 1

KIOWA COUNTY, OKLAHOMA

JUNE 30, 2011

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Schedule of Accountants' Professional Liability Insurance

Exhibit G-1

* The required internal control, compliance, and schedule of findings and questioned costs are required by Government Auditing Standards and OMB Circular A-133 when a single audit is applicable

**HOBART INDEPENDENT SCHOOL DISTRICT NO. I-1, KIOWA COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Hobart Independent School District #1
Kiowa County, Oklahoma

Board Members:

We have audited the accompanying fund type and account group financial statements, including budget and actual, of the **Hobart Independent School District #1**, Kiowa County, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements. 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, **Hobart Independent School District #1**, Kiowa County, has prepared these financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America although not reasonably determinable are presumed to be material.

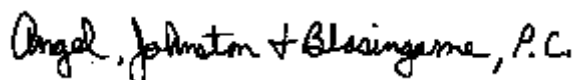
In addition, the District has not maintained the cost of fixed assets purchased in previous years and thus does not know the amount that should be recorded in the General Fixed Asset Account Group. Therefore, the General Fixed Asset Account Group has not been presented. This information is required under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

In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of **Hobart Independent School District #1**, Kiowa County, Oklahoma, as of June 30, 2011, or the changes in its financial position for the year then ended.

In our opinion, except for the omission of the General Fixed Asset Account Group results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of **Hobart School District, No 1**, Kiowa County, Oklahoma as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and budgetary results 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 January 2, 2012, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on financial statements that collectively comprise **Hobart Independent School District #1**, Kiowa County, Oklahoma, as a whole. The combining fund statements and other schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education and/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 **Hobart Independent School District #1**, Kiowa 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.



Chickasha, Oklahoma
January 2, 2012

COMBINED FINANCIAL STATEMENTS

Hobart School District No.1-001, Kiowa County, Oklahoma
Combined Statement of Assets, Liabilities and Equity
Regulatory Basis - All Fund Types and Account Groups
For the Year Ending June 30, 2011

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
<u>ASSETS</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Long- Term Debt</u>	<u>June 30, 2011</u>
Cash and Cash Equivalents	\$ 1,096,869	\$ 108,072	\$ 19,855	\$ 3,859	\$ 77,034	\$ 0	\$ 1,305,689
Investments	450,000	50,000	0	75,000	125,000	0	700,000
Amounts Available in Debt Service Fund	0	0	0	0	0	19,855	19,855
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	340,145	340,145
Amounts to be Provided for Capitalized Lease Agreements	0	0	0	0	0	1,715,950	1,715,950
Amounts to be Provided for Compensated Absences	0	0	0	0	0	32,759	32,759
Total Assets	\$ 1,546,869	\$ 158,072	\$ 19,855	\$ 78,859	\$ 202,034	\$ 2,108,709	\$ 4,114,398
<u>LIABILITIES AND FUND BALANCE</u>							
Liabilities:							
Warrants Payable	\$ 708,695	\$ 22,154	\$ 0	\$ 0	\$ 0	\$ 0	\$ 730,849
Reserve for Encumbrances	54,172	13,600	0	0	0	0	67,773
Due to Activity Groups	0	0	0	0	173,714	0	173,714
Reserved for Gift Fund	0	0	0	0	28,320	0	28,320
General Obligation Bonds Payable	0	0	0	0	0	360,000	360,000
Capitalized Lease Obligations Payable	0	0	0	0	0	1,715,950	1,715,950
Compensated Absences Payable	0	0	0	0	0	32,759	32,759
Total Liabilities	\$ 762,868	\$ 35,754	\$ 0	\$ 0	\$ 202,034	\$ 2,108,709	\$ 3,109,365
Fund Equity:							
Reserved for Debt Service	\$ 0	\$ 0	\$ 19,855	\$ 0	\$ 0	\$ 0	\$ 19,855
Reserved for Capital Projects	0	0	0	78,859	0	0	78,859
Cash Fund Balance	784,002	122,318	0	0	0	0	906,319
Total Fund Equity	\$ 784,002	\$ 122,318	\$ 19,855	\$ 78,859	\$ 0	\$ 0	\$ 1,005,033
Total Liabilities and Fund Equity	\$ 1,546,869	\$ 158,072	\$ 19,855	\$ 78,859	\$ 202,034	\$ 2,108,709	\$ 4,114,398

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

Hobart School District No. I-001, Kiowa County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ending June 30, 2011

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2011
Revenue Collected:					
Local Sources	\$ 700,839	\$ 104,487	\$ 362,899	\$ 1,733	\$ 1,169,958
Intermediate Sources	160,297	0	0	0	160,297
State Sources	3,737,568	6,360	1,229	0	3,745,157
Federal Sources	914,909	222,000	0	0	1,136,909
Non-Revenue Receipts	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 5,513,613</u>	<u>\$ 332,847</u>	<u>\$ 364,129</u>	<u>\$ 1,733</u>	<u>\$ 6,212,322</u>
Expenditures Paid:					
Instruction	\$ 3,491,466	\$ 6,110	\$ 0	\$ 0	\$ 3,497,576
Support Services	1,986,609	90,513	0	9,860	2,086,981
Operation of Non-Instructional Services	35,213	284,405	0	0	319,618
Facilities Acquisition and Construction	250	7,024	0	350,750	358,024
Other Outlays	0	0	0	0	0
Other Uses	0	0	0	0	0
Repayments	19,000	0	0	0	19,000
Interest Paid on Warrants and Bank Charges	0	0	0	0	0
Debt Service:					
Principal Retirement	0	0	360,000	0	360,000
Interest and Fiscal Agent Fees	0	0	13,320	0	13,320
<i>Total Expenditures Paid</i>	<u>\$ 5,532,537</u>	<u>\$ 388,052</u>	<u>\$ 373,320</u>	<u>\$ 360,610</u>	<u>\$ 6,654,519</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (18,924)</u>	<u>\$ (55,206)</u>	<u>\$ (9,191)</u>	<u>\$ (358,876)</u>	<u>\$ (442,198)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 47,273</u>	<u>\$ 20,630</u>	<u>\$ 0</u>	<u>\$ (7,013)</u>	<u>\$ 60,890</u>
Other Financing Sources (Uses):					
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Bond Proceeds	0	0	0	360,000	360,000
Transfers In	24,694	75,057	0	0	99,751
Transfers Out	0	(20,077)	0	0	(20,077)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 24,694</u>	<u>\$ 54,979</u>	<u>\$ 0</u>	<u>\$ 360,000</u>	<u>\$ 439,674</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 53,043</u>	<u>\$ 20,403</u>	<u>\$ (9,191)</u>	<u>\$ (5,889)</u>	<u>\$ 58,366</u>
<i>Fund Balance - Beginning of Year</i>	<u>730,959</u>	<u>101,914</u>	<u>29,046</u>	<u>84,748</u>	<u>946,667</u>
<i>Fund Balance - End of Year</i>	<u>\$ 784,002</u>	<u>\$ 122,318</u>	<u>\$ 19,855</u>	<u>\$ 78,860</u>	<u>\$ 1,005,033</u>

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

Hobart School District No.1-001, Kiowa County, Oklahoma
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types
For the Year Ending June 30, 2011

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 555,516	\$ 555,516	\$ 700,839	\$ 79,294	\$ 79,294	\$ 104,487	\$ 344,274	\$ 344,274	\$ 364,129
Intermediate Sources	138,000	138,000	160,297	0	0	0	0	0	0
State Sources	3,716,353	3,739,375	3,737,568	5,000	5,000	6,360	0	0	0
Federal Sources	401,187	551,137	914,909	210,000	210,000	222,000	0	0	0
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 4,811,056</u>	<u>\$ 4,984,028</u>	<u>\$ 5,513,613</u>	<u>\$ 294,294</u>	<u>\$ 294,294</u>	<u>\$ 332,847</u>	<u>\$ 344,274</u>	<u>\$ 344,274</u>	<u>\$ 364,129</u>
Expenditures Paid:									
Instruction	\$ 3,410,515	\$ 3,583,487	\$ 3,491,466	\$ 0	\$ 0	\$ 6,110	\$ 0	\$ 0	\$ 0
Support Services	2,039,500	2,039,500	1,986,609	115,000	115,000	90,513	0	0	0
Operation of Non-Instructional Services	38,000	38,000	35,213	351,000	351,000	284,405	0	0	0
Facilities Acquisition and Construction	1,000	1,000	250	6,208	6,208	7,024	0	0	0
Other Outlays	0	0	0	2,000	2,000	0	373,320	373,320	373,320
Other Uses	2,000	2,000	0	0	0	0	0	0	0
Repayments	20,000	20,000	19,000	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 5,511,015</u>	<u>\$ 5,683,987</u>	<u>\$ 5,532,537</u>	<u>\$ 474,208</u>	<u>\$ 474,208</u>	<u>\$ 388,052</u>	<u>\$ 373,320</u>	<u>\$ 373,320</u>	<u>\$ 373,320</u>
<i>Excess of Revenues Collected Over (Under)</i>									
<i>Expenditures Paid Before Adjustments to</i>									
<i>Prior Year Encumbrances</i>	<u>\$ (699,959)</u>	<u>\$ (699,959)</u>	<u>\$ (18,924)</u>	<u>\$ (179,914)</u>	<u>\$ (179,914)</u>	<u>\$ (55,206)</u>	<u>\$ (29,046)</u>	<u>\$ (29,046)</u>	<u>\$ (9,191)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,273</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,630</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	24,694	80,000	80,000	75,057	0	0	0
Transfers Out	(31,000)	(31,000)	0	(2,000)	(2,000)	(20,077)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (31,000)</u>	<u>\$ (31,000)</u>	<u>\$ 24,694</u>	<u>\$ 78,000</u>	<u>\$ 78,000</u>	<u>\$ 54,979</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected</i>									
<i>Over Expenditures Paid and Other Financing</i>									
<i>Sources (Uses)</i>	<u>\$ (730,959)</u>	<u>\$ (730,959)</u>	<u>\$ 53,043</u>	<u>\$ (101,914)</u>	<u>\$ (101,914)</u>	<u>\$ 20,403</u>	<u>\$ (29,046)</u>	<u>\$ (29,046)</u>	<u>\$ (9,191)</u>
<i>Fund Balance - Beginning of Year</i>	<u>730,959</u>	<u>730,959</u>	<u>730,959</u>	<u>101,914</u>	<u>101,914</u>	<u>101,914</u>	<u>29,046</u>	<u>29,046</u>	<u>29,046</u>
<i>Fund Balance - End of Year</i>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 784,002</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 122,318</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 19,855</u>

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

Hobart ISD No. 1, Kiowa County

Notes To The Financial Statements

For The Year Ended June 30, 2011

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Hobart Public Schools Independent District No. 1, Kiowa 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."

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

Governmental Fund Types

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

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

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

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

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 consist of the District's 2008 and 2009 Building 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 and renovating existing facilities.

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.

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

1.B. Fund Accounting, (continued)

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.

2. **Gift Fund** – The District set up a fund in order to accept gifts to help renovate the football field. The administration is responsible, under the Board of education for collecting gifts and disbursing and accounting for this fund.

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:

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

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

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

1.D. Budgets and Budgetary Accounting

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

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

1.E. Assets, Liabilities and Fund Equity

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

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

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

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

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

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

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

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

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. Vested accumulated rights to receive sick pay benefits have been reported in the general long-term debt account group.

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.

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

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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

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.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers in/transfers out may not agree because activity fund transactions are not included.

Note 2 – Deposit and Investment Risk

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

		Carrying Value
Deposits		
Demand Deposits	\$	1,310,354
Time Deposits		700,000
Total Deposits	\$	2,010,354
Investments		
	<u>Credit Rating</u>	<u>Maturity</u>
		Fair Value
		\$ 0
Total Investments		\$ 0
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	2,005,689
Activity Fund Outstanding Checks		4,665
Total Deposits and Investments	\$	2,010,354

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.

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 2 – Deposit and Investment Risk, (continued)

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

At June 30, 2011, the District was not exposed to custodial credit 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:

- a. 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.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully uninsured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

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.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

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

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

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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, obligations for compensated absences, and capital leases. Debt service requirements for bonds are payable solely from the fund balance and future revenues of the debt service fund.

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

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2010	360,000	2,066,700	26,429	2,453,129
Additions	360,000	0	6,330	366,330
Retirements	(360,000)	(350,750)	-	(710,750)
Balance, June 30, 2011	360,000	1,715,950	32,759	2,108,709

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

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2010 Building Bonds	1.60%	July 1, 2012	\$ 360,000	\$ 360,000
			<u>\$ 360,000</u>	<u>\$ 360,000</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009 Building Bonds			
2009-10	\$ 360,000	\$ 11,520	\$ 371,520
Sub Total	<u>\$ 360,000</u>	<u>\$ 11,520</u>	<u>\$ 371,520</u>
Total Bonds	<u>\$ 360,000</u>	<u>\$ 11,520</u>	<u>\$ 371,520</u>

Interest expense on bonds payable incurred during the current year totaled \$13,320.

The District has entered into a lease agreement as lessee for financing the acquisition of a new Middle School. This lease agreement qualifies as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. This lease contains a clause which gives the District the ability to terminate the lease agreement at the end of each fiscal year.

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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

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 leases.

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	Improvements	Total
2012	\$ 350,750	\$ 350,750
2013	350,750	350,750
2014	1,014,450	1,014,450
Total	\$ 1,715,950	\$ 1,715,950
Less: Amount Representing Interest	0	0
Present Value of Future Minimum Lease Payments	\$ 1,715,950	\$ 1,715,950

In addition to the above capital lease payments, the district will pay rent of \$1,500 every six months until the Middle School Building is completely paid for.

Additionally, the District accrues for unused sick leave for all certified employees whom have been with the District continuously for at least six years. Unused sick leave is calculated at \$24 per day above 60 days upon retirement or termination. Unused sick days up to 60 are maintained in one bank to apply towards the purchase of additional teacher retirement. The remaining unused sick days over 60 are maintained in a separate bank. The liability at June 30, 2011 is \$32,759.

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.

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

Note 4 - Employee Retirement System, (continued)

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, 2011. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The District's contributions to the System for the years ending June 30, 2011, 2010, and 2009 were \$298,426, \$310,307, and \$293,861 respectively.

The compensation for employees covered by the System for the year ended June 30, 2011 was \$3,141,188; the District's total compensation was \$4,210,177. In addition to the District's 9.50% contributions, the District was required to pay into the System 6.50% of compensation arising from federal grants (\$14,090) and 9.50% of compensation arising from post retirement employees (\$3,800). There were \$169,103 contributions made by employees during the year ended June 30, 2011.

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

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

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

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

Hobart ISD No. 1, Kiowa County
Notes To The Financial Statements
For The Year Ended June 30, 2011

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.

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 – Budget Amendments

The General Fund budget was amended one time during the year by filing a supplemental appropriation form at the county clerk's office. The supplemental appropriation was filed November 8, 2010, for \$172,972. This increased the General Fund budget from \$5,542,015 to \$5,714,987.

Note 9 – Surety Bonds

The district has a faithful performance position bond with Western Surety Company bond #68626229 that covers the following positions for the penal sums as listed:

School Treasurer and Deputy Treasurer	100,000
Activity Fund Custodian and Child Nutrition Fund Custodian	100,000
Board Clerk /Minutes Clerk	10,000
Superintendent	100,000
Encumbrance Clerk and Deputy Encumbrance Clerk	100,000

This bond covers a period of July 1, 2010 to July 1, 2011.

OTHER SUPPLEMENTAL INFORMATION

Hobart School District No.1-001, Kiowa County, Oklahoma
Combining Statement of Assets, Liabilities and Cash Fund Balances
Regulatory Basis - All Special Revenue Funds
For the Year Ending June 30, 2011

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Total June 30, 2011</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 27,315	\$ 80,756	\$ 108,072
Investments	<u>50,000</u>	<u>0</u>	<u>50,000</u>
<i>Total Assets</i>	<u>\$ 77,315</u>	<u>\$ 80,756</u>	<u>\$ 158,072</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Warrants Payable	\$ 1,397	\$ 20,756	\$ 22,154
Reserve for Encumbrances	<u>13,600</u>	<u>0</u>	<u>13,600</u>
<i>Total Liabilities</i>	<u>\$ 14,998</u>	<u>\$ 20,756</u>	<u>\$ 35,754</u>
Fund Balance:			
Cash Fund Balance	<u>\$ 62,318</u>	<u>\$ 60,000</u>	<u>\$ 122,318</u>
<i>Total Fund Balance</i>	<u>\$ 62,318</u>	<u>\$ 60,000</u>	<u>\$ 122,318</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 77,315</u>	<u>\$ 80,756</u>	<u>\$ 158,072</u>

Hobart School District No.I-001, Kiowa County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - Special Revenue Funds
For the Year Ending June 30, 2011

	Building Fund	Child Nutrition Fund	Total June 30, 2011
Revenue Collected:			
Local Sources	\$ 103,147	\$ 1,340	\$ 104,487
Intermediate Sources	0	0	0
State Sources	274	6,086	6,360
Federal Sources	0	222,000	222,000
Non-Revenue Receipts	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 103,421</u>	<u>\$ 229,426</u>	<u>\$ 332,847</u>
Expenditures Paid:			
Instruction	\$ 6,110	\$ 0	\$ 6,110
Support Services	90,513	0	90,513
Operation of Non-Instructional Services	0	284,405	284,405
Facilities Acquisition and Construction	7,024	0	7,024
Other Outlays	0	0	0
Other Uses	0	0	0
Repayments	0	0	0
Interest Paid and Bank Charges	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 103,647</u>	<u>\$ 284,405</u>	<u>\$ 388,052</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (226)</u>	<u>\$ (54,979)</u>	<u>\$ (55,206)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 20,630</u>	<u>\$ 0</u>	<u>\$ 20,630</u>
Other Financing Sources (Uses):			
Estopped Warrants	\$ 0	\$ 0	\$ 0
Transfers In	0	75,057	75,057
Transfers Out	0	(20,077)	(20,077)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 54,979</u>	<u>\$ 54,979</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 20,403</u>	<u>\$ 0</u>	<u>\$ 20,403</u>
<i>Fund Balance - Beginning of Year</i>	<u>41,914</u>	<u>60,000</u>	<u>101,914</u>
<i>Fund Balance - End of Year</i>	<u><u>\$ 62,318</u></u>	<u><u>\$ 60,000</u></u>	<u><u>\$ 122,318</u></u>

Hobart School District No.I-001, Kiowa County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Special Revenue Funds - Budget and Actual
For the Year Ending June 30, 2011

	Building Fund			Child Nutrition Fund			Total		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 79,294	\$ 79,294	\$ 103,147	\$ 0	\$ 0	\$ 1,340	\$ 79,294	\$ 79,294	\$ 104,487
Intermediate Sources	0	0	0	0	0	0	0	0	0
State Sources	0	0	274	5,000	5,000	6,086	5,000	5,000	6,360
Federal Sources	0	0	0	210,000	210,000	222,000	210,000	210,000	222,000
Non-Revenue Receipts	0	0	0	0	0	0	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 79,294</u>	<u>\$ 79,294</u>	<u>\$ 103,421</u>	<u>\$ 215,000</u>	<u>\$ 215,000</u>	<u>\$ 229,426</u>	<u>\$ 294,294</u>	<u>\$ 294,294</u>	<u>\$ 332,847</u>
Expenditures Paid:									
Instruction	\$ 0	\$ 0	\$ 6,110	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6,110
Support Services	115,000	115,000	90,513	0	0	0	115,000	115,000	90,513
Operation of Non-Instructional Services	0	0	0	351,000	351,000	284,405	351,000	351,000	284,405
Facilities Acquisition and Construction	6,208	6,208	7,024	0	0	0	6,208	6,208	7,024
Other Outlays	0	0	0	2,000	2,000	0	2,000	2,000	0
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 121,208</u>	<u>\$ 121,208</u>	<u>\$ 103,647</u>	<u>\$ 353,000</u>	<u>\$ 353,000</u>	<u>\$ 284,405</u>	<u>\$ 474,208</u>	<u>\$ 474,208</u>	<u>\$ 388,052</u>
<i>Excess of Revenues Collected Over (Under)</i> <i>Expenditures Paid Before Adjustments to</i> <i>Prior Year Encumbrances</i>	<u>\$ (41,914)</u>	<u>\$ (41,914)</u>	<u>\$ (226)</u>	<u>\$ (138,000)</u>	<u>\$ (138,000)</u>	<u>\$ (54,979)</u>	<u>\$ (179,914)</u>	<u>\$ (179,914)</u>	<u>\$ (55,206)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,630</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 20,630</u>
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	80,000	80,000	75,057	80,000	80,000	75,057
Transfers Out	0	0	0	(2,000)	(2,000)	(20,077)	(2,000)	(2,000)	(20,077)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 78,000</u>	<u>\$ 78,000</u>	<u>\$ 54,979</u>	<u>\$ 78,000</u>	<u>\$ 78,000</u>	<u>\$ 54,979</u>
<i>Excess (Deficiency) of Revenue Collected</i> <i>Over Expenditures Paid and Other Financing</i> <i>Sources (Uses)</i>	<u>\$ (41,914)</u>	<u>\$ (41,914)</u>	<u>\$ 20,403</u>	<u>\$ (60,000)</u>	<u>\$ (60,000)</u>	<u>\$ 0</u>	<u>\$ (101,914)</u>	<u>\$ (101,914)</u>	<u>\$ 20,403</u>
<i>Fund Balance - Beginning of Year</i>	<u>41,914</u>	<u>41,914</u>	<u>41,914</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>101,914</u>	<u>101,914</u>	<u>101,914</u>
<i>Fund Balance - End of Year</i>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 62,318</u></u>	<u><u>\$ (0)</u></u>	<u><u>\$ (0)</u></u>	<u><u>\$ 60,000</u></u>	<u><u>\$ (0)</u></u>	<u><u>\$ (0)</u></u>	<u><u>\$ 122,318</u></u>

Exhibit A-3

Hobart School District No.1-001, Kiowa County, Oklahoma
Combining Assets, Liabilities and Fund Equity
Trust and Agency Fund - Regulatory Basis
For the Year Ending June 30, 2011

<u>ASSETS</u>	<u>School Activity Fund</u>
Cash	\$ 77,034
Investments	<u>125,000</u>
<i>Total Assets</i>	<u><u>\$ 202,034</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Due To Activity Groups	\$ 173,714
Due to Gift Fund	<u>28,320</u>
<i>Total Liabilities</i>	<u><u>\$ 202,034</u></u>
Fund Equity:	
Unreserved/Undesignated	<u>\$ 0</u>
<i>Total Liabilities and Fund Equity</i>	<u><u>\$ 202,034</u></u>

Hobart School District No.I-001, Kiowa County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Trust and Agency Funds
For the Year Ending June 30, 2011

ACTIVITIES	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Athletics	\$ 24,533	\$ 90,097	\$ 84,811	\$ 29,819
Petty Cash	0	700	700	0
FFA	5,270	17,336	19,978	2,628
OASA Dist 13/OASSP District	54	0	0	54
Middle School Miscellaneous	8,242	10,622	11,076	7,788
Middle School Cheerleaders	260	4,957	2,671	2,546
Elementary Flower Fund	340	310	432	217
Hobart Band	6,843	7,216	6,005	8,054
Interest	0	1,877	1,877	0
Middle School Student	7,308	14,169	10,886	10,591
FTA	4,937	3,295	4,189	4,043
Top Ten Percent Honor	1,548	2,607	2,145	2,010
Lunch Fund Refund	0	75,049	75,049	0
Board of Education Miscellaneous	1,443	2,835	2,142	2,136
Elementary School Miscellaneous	20,357	29,725	26,280	23,802
Special Olympics	1,516	0	0	1,516
Math Club	726	2,848	3,103	471
General Fund Refund	0	4,417	4,417	0
FCCLA	467	2,352	1,770	1,049
Senior Class	1,345	1,463	1,807	1,002
MS/HS Library	242	2,614	2,757	99
Annual	20,511	21,640	14,318	27,832
Band Boosters	14,942	19,452	19,940	14,454
Junior Class	0	7,523	7,523	0
H.S. Cheerleaders	150	10,955	9,209	1,897
Chorus (MS/HS)	2,292	13,149	13,562	1,879
H. Club	12,359	14,371	13,917	12,813
High School Miscellaneous	4,230	11,353	7,591	7,992
HS Student Council	7,114	5,400	7,404	5,110
Spanish Club	1,147	0	600	547
Speech Class	481	1,091	800	773
Junior Main Street Program	919	991	917	993
AP Club	1,071	3,809	3,602	1,278
Supt Advisory	3,595	1,900	5,175	320
Total School Activity Funds	\$ 154,242	\$ 386,122	\$ 366,651	\$ 173,714
Gift Fund	\$ 25,672	\$ 32,138	\$ 29,490	\$ 28,320
Total Trust and Agency Funds	\$ 177,914	\$ 418,260	\$ 396,141	\$ 202,034

HOBART INDEPENDENT SCHOOL DISTRICT NO. 1, KIOWA COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDED
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA#	Pass-Through Grantor's Project Number	Deferred Revenue (Accounts Receivable) July 1, 2010	Federal Grant Receipts	Federal Grant Expenditures	Deferred Revenue (Accounts Receivable) June 30, 2011
U.S. Department of Education						
Direct Programs:						
Impact Aid	84.041	591/592	3,896	18,301	18,301	3,896
Passed Through Oklahoma State Department of Education:						
Title I, Basic	84.010	511/512	(68,771)	187,738	204,974	(86,007)
ARRA Title I, Basic	84.389	516	(3,721)	41,650	42,897	(4,968)
Title I Cluster			(72,492)	229,388	247,871	(90,975)
IDEA-B Flowthrough	84.027	621	(60,576)	159,357	167,805	(69,024)
ARRA IDEA B, Flow Through	84.391A	622	(23,597)	24,101	1,630	(1,126)
ARRA Preschool	84.392A	643	(955)	2,140	1,527	(342)
IDEA-B Preschool	84.173	641	(1,198)	3,945	4,709	(1,962)
Special Education Cluster			(86,326)	189,543	175,671	(72,454)
ARRA Education Stabilization Fund	84.394	782	0	175,672	175,672	0
ARRA Stabilization Cluster			0	175,672	175,672	0
Title II, Part A, Teacher & Principal Quality	84.367	541	(26,528)	66,698	65,075	(24,905)
Title II, Part D	84.318	546/548	(1,860)	2,254	394	0
Title IV, Part A	84.186A	551	(3,877)	3,959	82	0
Title VI, Part B	84.358	587	(6,922)	19,874	19,363	(6,411)
Education Jobs Funds	84.410	790	0	149,950	149,950	0
Passed Through Oklahoma Dept. of Vocational Education						
Carl Perkins	84.048	421	(2,010)	9,242	17,136	(9,904)
Total U.S. Department of Education			(196,119)	864,881	869,515	(200,753)
U.S. Department of Health & Human Services						
Passed through Oklahoma Health Care Authority						
Medicaid Resources	93.778	698	0	50,029	50,029	0
Total U.S. Department of Health & Human Services			0	50,029	50,029	0
U.S. Department of Agriculture						
Passed Through State Department of Education:						
Breakfast Program	10.553	385	0	45,163	45,163	0
Lunch Program	10.555	385	0	176,837	176,837	0
Commodities Distributed-Lunch	10.555	385	0	15,893	15,893	0
Child Nutrition Cluster			0	237,893	237,893	0
Total U.S. Department of Agriculture			0	237,893	237,893	0
TOTAL FEDERAL ASSISTANCE			(196,119)	1,152,802	1,157,437	(200,753)

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.

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

Note 3 - Commodities received in the amount of \$15,893 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

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

	CFDA #	Program #	Federal Grant Receipts	Federal Grant Expenditures	Deferred ARRA Revenue (Accounts Rec)
ARRA Title I	84.389	516	41,650	42,897	(4,968)
ARRA Special Education	84.391A	622	24,101	1,630	(1,126)
ARRA Special Education Preschool	84.392A	643	2,140	1,527	(342)
ARRA Education Stabilization Fund	84.394	782	175,672	175,672	0
			243,563	221,726	(6,436)



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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
Hobart Independent School District #1
Kiowa County, Oklahoma

Board Members:

We have audited the fund type and account group financial statements, including budget and actual, of **Hobart Independent School District #1**, as of and for the year ended June 30, 2011, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements, and have issued our report thereon dated January 2, 2012. The report on these financial statements was adverse because the District has elected to prepare its financial statements in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to a departure related to the general fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

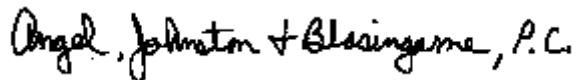
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Finding 2011-1) 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.

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 responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of education of **Hobart Independent School District #1**, 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.



Chickasha, Oklahoma
January 2, 2012



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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Board of Education
Hobart Independent School District #I-1
Kiowa County, Oklahoma

Board Members:

Compliance

We have audited **Hobart Independent School District #I-1**, Kiowa County, Oklahoma's, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of 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 of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, **Hobart Independent School District #I-1, Kiowa County**, Oklahoma 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 the 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 Entity'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 governing board, management, others within the agency, federal awarding agencies and pass-through entities 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 2, 2012

Hobart ISD No. 1, Kiowa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|---|---|
| 1. Type of auditor's report issued | Adverse
(Due to F/S being prepared on
a regulatory basis of accounting) |
| 2. Internal control over financial reporting; | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be
material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | | | | | | | | | |
|---|-----------------------------------|--------------------------------|---------------|-----------------|-------------------------------|---------------------------|--------|-----------------------------------|--|
| 1. Internal control over major program: | | | | | | | | | |
| a. Material weaknesses identified? | No | | | | | | | | |
| b. Significant deficiencies identified not considered to be
material weaknesses? | None Reported | | | | | | | | |
| 2. Type of auditor's report issued on compliance for major program: | Unqualified | | | | | | | | |
| 3. Any audit findings disclosed that are required to be reported in
accordance with Circular OMB A-133, Section 510(a)? | No | | | | | | | | |
| 4. Identification of major programs: | | | | | | | | | |
| <table border="0" style="margin-left: 40px;"> <tr> <td style="text-align: right;"><u>CFDA Number</u></td> <td style="text-align: left;"><u>Name of Federal Program</u></td> </tr> <tr> <td style="text-align: right;">84.010/84.389</td> <td style="text-align: left;">Title I Cluster</td> </tr> <tr> <td style="text-align: right;">84.027/84.391A/84.392A/84.173</td> <td style="text-align: left;">Special Education Cluster</td> </tr> <tr> <td style="text-align: right;">84.394</td> <td style="text-align: left;">ARRA Education Stabilization Fund</td> </tr> </table> | <u>CFDA Number</u> | <u>Name of Federal Program</u> | 84.010/84.389 | Title I Cluster | 84.027/84.391A/84.392A/84.173 | Special Education Cluster | 84.394 | ARRA Education Stabilization Fund | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> | | | | | | | | |
| 84.010/84.389 | Title I Cluster | | | | | | | | |
| 84.027/84.391A/84.392A/84.173 | Special Education Cluster | | | | | | | | |
| 84.394 | ARRA Education Stabilization Fund | | | | | | | | |
| 5. Dollar threshold used to distinguish between Type A or Type B
programs: | \$300,000 | | | | | | | | |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133,
Section 530? | No | | | | | | | | |

Hobart ISD No. 1, Kiowa County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011
(Continued)

Section 2

Financial Statement Findings

2011-1 Finding

Statement of Condition -During activity fundraiser testing, we noted that the Junior class sponsor did not issue receipts to students for monies collected for a magazine fundraiser.

Criteria - Oklahoma Statutes require prenumbered receipts be issued by sponsors when money is collected from students.

Cause/Effect of Condition - Due to lack of implementation of proper fundraiser accounting procedures, there is an increased risk that misappropriation or fraud could occur and not be detected in a timely manner.

Recommendation -We recommend sponsors issue receipts to students for all monies collected.

Views of Responsible Officials and Planned Corrective Action - Sponsors will be required to issue receipts for all collections.

Section 3

Federal Award Findings and Questioned Costs

(None reported)

Hobart ISD No. 1, Kiowa County
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2011

Management Letter Findings:

2010-1 Finding – During our review of the district’s internal controls, we noted that all three (3) signature stamps can be accessed by multiple people. The signature stamps are kept in separate places within the office, including one locking file cabinet. However, the key to the cabinet is kept above the file cabinet. Thus, an employee could issue a warrant without others being involved. To establish better internal controls, signature stamp access should be limited so one person could not sign all three signatures on a warrant.

Recommendation – We recommend that no one individual have access to all three signature stamps.

Current Status – Access to signature stamps has been limited so that one person does not have access to all three signatures necessary to sign a warrant.

2010-2 Finding – During our testing of concession count sheets for football and basketball games, we noted that several count sheets were only signed by one individual.

Recommendation – We recommend that cash be counted by two individuals and the count sheets signed by both individuals to signify they agree with the cash counted before the monies are placed under the control of a single person.

Current Status - All the count sheets we tested during the 2010-11 audit, had two signatures.

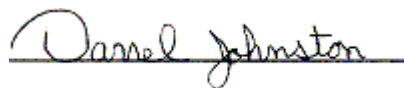
OTHER INFORMATION

Hobart ISD No. 1, Kiowa County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2011

STATE OF OKLAHOMA)
)ss
COUNTY OF GRADY)

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

ANGEL, JOHNSTON, & BLASINGAME, P.C.

A handwritten signature in blue ink that reads "Daniel Johnston" is written over a horizontal line.

by _____

Subscribed and sworn before me this ____ day of _____, 2012.

Notary Public

My Commission Expires 11-12-12