

AUDIT REPORT

KEYS SCHOOL DISTRICT NO. I-006

PARK HILL, CHEROKEE COUNTY, OKLAHOMA

JULY 1, 2011 THROUGH JUNE 30, 2012

AUDITED BY

ALAN CHAPMAN

CERTIFIED PUBLIC ACCOUNTANT

401 S. WATER STREET

TAHLEQUAH, OKLAHOMA

**KEYS SCHOOL DISTRICT No. 1-006
CHEROKEE COUNTY, OKLAHOMA
JUNE 30, 2012**

TABLE OF CONTENTS

<u>Independent Auditor's Report</u>	1
<u>Combined Financial Statements</u>	
Combined Statement of Assets, Liabilities, and Fund Balances - Regulatory Basis - All Fund Types and Account Groups	4
Combined Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances - Regulatory Basis - All Governmental Fund Types	5
Combined Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances - Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types	6
<u>Notes to the Financial Statements</u>	9
<u>Supplemental Information</u>	
<u>Combining Financial Statements</u>	
Combining Statement of Assets, Liabilities and Fund Balances - Regulatory Basis - All Special Revenue Funds	24
Combining Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances - Regulatory Basis Special Revenue (Building and Child Nutrition) Funds	25
Combining Statement of Revenues Collected, Expenditures Paid, and Changes in Fund Balances - Budget and Actual Regulatory Basis - Special Revenue Funds	26
Statement of Assets, Liabilities and Fund Balances - Regulatory Basis - Fiduciary Funds	27
Statement of Changes in Assets and Liabilities - Regulatory Basis - Fiduciary Funds	28
Combining Statement of Assets, Liabilities and Fund Balances Fiduciary Fund - Sub-Accounts of Agency Funds - Regulatory Basis	29
<u>Supporting Schedules</u>	
Schedule of Federal Awards Expended	30

<u>Reports Required by <i>Government Auditing Standards</i></u>	
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	31
<u>Reports and Schedules Required by <i>OMB Circular A-133</i></u>	
Independent Auditor's Report on Compliance with Requirements Applicable to each major program and Internal Control Over compliance in accordance with OMB Circular A-133	33
Schedule of Expenditures of Federal Awards	35
Schedule of Findings and Questioned Costs	36
<u>Schedule of Prior Year Findings</u>	38
<u>Schedule of Accountant's Professional Liability Insurance Affidavit</u>	39
<u>Audit Acknowledgment</u>	40

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Keys School District No. I-006
Park Hill, Cherokee County, Oklahoma

I have audited the accompanying combined financial statements - regulatory basis - of Keys School District No. I-006, Park Hill, Cherokee County, Oklahoma as of and for the year ended June 30, 2012, as listed in the Table of Contents. These combined financial statements are the responsibility of the Keys School District's management. My responsibility is to express an opinion on these combined financial statements - regulatory basis - based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, these combined financial statements are prepared on a regulatory basis of accounting conforming with the accounting practices prescribed by the Oklahoma Department of Education and budget laws of the State of Oklahoma which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1, the combined financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

In my opinion, because the District's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, the combined financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Keys School District No. I-006, Keys, Cherokee County, Oklahoma as of June 30, 2012, or the results of its operations for the year then ended.

Independent Auditor's Report (continued)

However, in my opinion, except for the omission of the general fixed assets account group, the combined financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balances - regulatory basis of the Keys School District No. I-006, Park Hill, Cherokee County, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid and encumbered for the year then ended, in accordance with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 4, 2013, on my consideration of the Keys School District No. I-006, Park Hill, Cherokee County, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report.

My audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining, individual fund, account group, and schedules listed in the Table of Contents are presented for purposes of additional analysis, and are not a required part of the combined financial statements of the Keys School District No. I-006. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by 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. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in my opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

January 4, 2013



Alan Chapman, CPA

COMBINED FINANCIAL STATEMENTS

KEYS SCHOOL DISTRICT NO. 1-006
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2012

	Governmental Fund Types			Fiduciary Fund Types		Account Group		Total (Memorandum Only Note 1) 2012
	General	Special Revenue	Capital Projects	Debt Service	Trust and Agency	General Long- Term Debt		
ASSETS								
Cash and Investments	\$ 370,572.03	\$ 71,470.74	\$ 99,591.69	\$ 269,330.03	\$ 88,973.44	\$ -	\$ 899,937.93	
Amount Available in Debt Service Fund	-	-	-	-	-	269,330.03	269,330.03	
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-	-	-	230,669.97	230,669.97	
Amount to be Provided for Capitalized Lease Agreements	-	-	-	-	-	43,521.36	43,521.36	
Total Assets	\$ 370,572.03	\$ 71,470.74	\$ 99,591.69	\$ 269,330.03	\$ 88,973.44	\$ 543,521.36	\$ 1,443,459.29	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Warrants Payable	\$ 254,810.26	\$ 2,529.10	\$ 1,333.22	\$ -	\$ -	\$ -	\$ 258,672.58	
Due to Others	-	-	-	-	88,973.44	-	88,973.44	
General Obligation Bonds Payable	-	-	-	-	-	500,000.00	500,000.00	
Capitalized Lease Obligations Payable	-	-	-	-	-	43,521.36	43,521.36	
Total Liabilities	254,810.26	2,529.10	1,333.22	-	88,973.44	543,521.36	891,167.38	
Fund Balances:								
Designated for Debt Service	-	-	-	269,330.03	-	-	269,330.03	
Undesignated	115,761.77	68,941.64	98,258.47	-	-	-	282,961.88	
Total Fund Balances	115,761.77	68,941.64	98,258.47	269,330.03	-	-	552,291.91	
Total Liabilities and Fund Balances	\$ 370,572.03	\$ 71,470.74	\$ 99,591.69	\$ 269,330.03	\$ 88,973.44	\$ 543,521.36	\$ 1,443,459.29	

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. 1-006
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND BALANCES - REGULATORY BASIS
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2012

	Governmental Fund Types				Total (Memorandum Only Note 1) 2012
	General	Special Revenue	Capital Projects	Debt Service	
REVENUES:					
Local Sources	\$ 182,025.76	\$ 132,840.60	\$ -	\$ -	\$ 314,866.36
Intermediate Sources	1,027,437.74	133,317.25	899.98	252,299.32	1,413,954.29
State Sources	3,873,810.33	6,852.20	-	-	3,880,662.53
Federal Sources	488,389.86	314,112.28	-	-	802,502.14
Total Revenues Collected	<u>5,571,663.69</u>	<u>587,122.33</u>	<u>899.98</u>	<u>252,299.32</u>	<u>6,411,985.32</u>
EXPENDITURES:					
Instruction	3,347,245.59	-	-	-	3,347,245.59
Support Services	2,173,590.80	126,801.60	-	-	2,300,392.40
Non-Instructional Services	247,264.05	389,194.41	-	-	636,458.46
Capital Outlay	-	92,206.99	393,039.49	-	485,246.48
Other Outlays	3,947.19	70,000.00	-	-	73,947.19
Debt Service:					
Principal Retirement	-	-	-	255,000.00	-
Interest and Fiscal Agents Charges	-	-	-	9,941.25	9,941.25
Total Expenditures	<u>5,772,047.63</u>	<u>678,203.00</u>	<u>393,039.49</u>	<u>264,941.25</u>	<u>7,108,231.37</u>
Excess of Revenues Over (Under) Expenditures	<u>(200,383.94)</u>	<u>(91,080.67)</u>	<u>(392,139.51)</u>	<u>(12,641.93)</u>	<u>(696,246.05)</u>
Adjustments to Prior Year Encumbrances	-	-	-	-	-
Other Financing Sources (Uses):					
Bond Sale Proceeds	-	-	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(200,383.94)</u>	<u>(91,080.67)</u>	<u>(392,139.51)</u>	<u>(12,641.93)</u>	<u>(696,246.05)</u>
Beginning Fund Balances	<u>316,145.71</u>	<u>160,022.31</u>	<u>490,397.98</u>	<u>281,971.96</u>	<u>1,248,537.96</u>
Ending Fund Balances	<u>\$ 115,761.77</u>	<u>\$ 68,941.64</u>	<u>\$ 98,258.47</u>	<u>\$ 269,330.03</u>	<u>\$ 552,291.91</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. 1-006
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - REGULATORY BASIS
BUDGETED GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund			Special Revenue Funds (Building and Child Nutrition Only)		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<u>REVENUES COLLECTED:</u>						
Local sources	\$ -	\$ -	\$ 182,025.76	\$ 35,713.17	\$ 101,682.93	\$ 132,840.60
Intermediate sources	944,414.73	944,414.73	1,027,437.74	124,744.57	124,744.57	133,317.25
State sources	3,747,766.68	3,747,766.68	3,873,810.33	6,889.57	6,889.57	6,852.20
Federal sources	312,758.54	1,101,673.40	488,389.86	247,684.83	295,191.03	314,112.28
Total revenues collected	<u>5,004,939.95</u>	<u>5,793,854.81</u>	<u>5,571,663.69</u>	<u>415,032.14</u>	<u>528,508.10</u>	<u>587,122.33</u>
<u>EXPENDITURES PAID:</u>						
Instruction	2,866,985.66	3,655,900.52	3,347,245.59	-	-	-
Support services	2,200,000.00	2,200,000.00	2,173,590.80	130,000.00	130,000.00	126,801.60
Non-instructional services	250,100.00	250,100.00	247,264.05	280,809.67	394,285.63	389,194.41
Capital outlays	-	-	-	94,244.78	94,244.78	92,206.99
Other outlays	4,000.00	4,000.00	3,947.19	70,000.00	70,000.00	70,000.00
Total expenditures paid	<u>5,321,085.66</u>	<u>6,110,000.52</u>	<u>5,772,047.63</u>	<u>575,054.45</u>	<u>688,530.41</u>	<u>678,203.00</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(316,145.71)</u>	<u>(316,145.71)</u>	<u>(200,383.94)</u>	<u>(160,022.31)</u>	<u>(160,022.31)</u>	<u>(91,080.67)</u>
Adjustments to prior year encumbrances	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(316,145.71)</u>	<u>(316,145.71)</u>	<u>(200,383.94)</u>	<u>(160,022.31)</u>	<u>(160,022.31)</u>	<u>(91,080.67)</u>
Fund balance, beginning of year	316,145.71	316,145.71	316,145.71	160,022.31	160,022.31	160,022.31
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,761.77</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,941.64</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. 1-006
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - REGULATORY BASIS
BUDGETED GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2012

	Debt Service			Capital Projects		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
<u>REVENUES COLLECTED:</u>						
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	252,299.32	252,299.32	252,299.32	899.98	899.98	899.98
State sources	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-
Total revenues collected	<u>252,299.32</u>	<u>252,299.32</u>	<u>252,299.32</u>	<u>899.98</u>	<u>899.98</u>	<u>899.98</u>
<u>EXPENDITURES PAID:</u>						
Capital Outlay	-	-	-	393,039.49	393,039.49	393,039.49
Principal Retirement	255,000.00	255,000.00	255,000.00	-	-	-
Interest and Fiscal Agent Charges	9,941.25	9,941.25	9,941.25	-	-	-
Total expenditures paid	<u>264,941.25</u>	<u>264,941.25</u>	<u>264,941.25</u>	<u>393,039.49</u>	<u>393,039.49</u>	<u>393,039.49</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(12,641.93)</u>	<u>(12,641.93)</u>	<u>(12,641.93)</u>	<u>(392,139.51)</u>	<u>(392,139.51)</u>	<u>(392,139.51)</u>
Adjustments to prior year encumbrances	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(12,641.93)</u>	<u>(12,641.93)</u>	<u>(12,641.93)</u>	<u>(392,139.51)</u>	<u>(392,139.51)</u>	<u>(392,139.51)</u>
Fund balance, beginning of year	<u>281,971.96</u>	<u>281,971.96</u>	<u>281,971.96</u>	<u>490,397.98</u>	<u>490,397.98</u>	<u>490,397.98</u>
Fund balance, end of year	<u>\$ 269,330.03</u>	<u>\$ 269,330.03</u>	<u>\$ 269,330.03</u>	<u>\$ 98,258.47</u>	<u>\$ 98,258.47</u>	<u>\$ 98,258.47</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Keys School District No. I-006 (the "District") have been prepared on a regulatory basis of accounting which is another comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The accounting policies are prescribed by the Oklahoma Department of Education, and conform to the system of accounting authorized by the State of Oklahoma. The following is a summary of the more significant accounting policies.

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 included, 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.

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. REPORTING ENTITY (continued)

The Board of School Trustees (Board), an elected five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to public school education within the jurisdiction of the Local Independent School District. The board receives funding from local, state, and federal government sources, and must comply with the requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

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 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.

KEYS SCHOOL DISTRICT NO. 1-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The second Special Revenue Fund is the Child Nutrition Fund, used to account for monies derived from federal and state reimbursement and local food service collections.

Debt Service Fund - The Debt Service Fund is the District's Sinking Fund 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.

Capital Projects Fund - The Capital Projects Fund is the District's Bond Fund 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.

Proprietary Fund Types

Proprietary Funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (Enterprise Funds) or to other departments or agencies primarily within the District (Internal Service Funds). The District does not have any Proprietary Funds.

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, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" 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 operations.

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

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

General Long-Term Debt Account Group - This account group was established to account for all long-term debt of the District, which is offset by the amount available in the Debt Service Fund and the amount to be provided in future years to complete retirement of the debt principal. 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.

General Fixed Asset Account Group - This account group is used to account for property, plant, and equipment of the School District. The District does not maintain a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not included in the financial statements. Land, buildings, nonstructural improvements, and all other physical assets in all funds are considered expenditures in the year of acquisition, and are not recorded as assets for financial statement purposes.

Memorandum Only - Total Column

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

C. BASIS OF ACCOUNTING

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

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. BASIS OF ACCOUNTING (continued)

- 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.

D. BUDGETS AND BUDGETARY ACCOUNTING - ESTIMATE OF NEEDS

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 the General Fund and Special Revenue Funds (Building Fund and Child Nutrition Fund) that includes revenues and expenditures.

The 2011-2012 Estimate of Needs was approved by the Board and subsequently filed with the county clerk. The Estimate of needs was approved by the excise board, and the requested levies were made.

E. ENCUMBRANCES

Encumbrances represent commitments 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. Appropriations not used or encumbered lapse at the end of the year.

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Cash Equivalents - 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 bank certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

Inventories - The value of consumable inventories at June 30, 2012, is not material to the financial statements. Purchases for inventory items are considered expenditures at the time the items were encumbered.

Fixed Assets and Property, Plant, and Equipment - The General Fixed Asset Account Group is not presented. The amount that should be recorded in the General Fixed Asset Account Group is not known.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources has not been reported as an expenditure or a fund liability of the governmental fund that will pay it since the combined financial statements have been prepared on the regulatory basis of accounting. Vested accumulated rights to receive sick pay benefits have not been reported in the General Long-Term Debt Account Group since the combined financial statements have been prepared on the regulatory basis of accounting. These practices differ from accounting principles generally accepted in the United States of America.

In accordance with the provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, 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 since none of the vested sick leave is expected to be liquidated with expendable available financial resources.

Long-Term Debt - Long-term debt is recognized as a liability of 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 when applicable.

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

G. REVENUES, EXPENSES, AND EXPENDITURES

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 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.

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.

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 or additions of revenue of the year when the adjustment is made.

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

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Transactions (continued)

recorded as revenues, expenditures, or 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. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during fiscal year 2012.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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. Accordingly, actual results could differ from those estimates.

Risk Management - The District participates in a risk pool for worker's 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 District reports that required contribution to the pool, net of refunds, as insurance expense.

NOTE 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, and bank and trust companies, savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

In accordance with state statutes, the District's investment policy:

Deposits and Investments - The District's cash deposits and investments at June 30, 2012, were completely insured or collateralized by federal deposit insurance, direct obligations of the United States Government, or securities held by the District or by its agent in the District's name.

Therefore, the District's cash deposits and investments at June 30, 2012, were not exposed to Custodial Credit Risk, Investment Credit Risk, Investment Interest Rate Risk, or Concentration of Investment Credit Risk.

KEYS SCHOOL DISTRICT NO. 1-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 3: SUMMARY OF STATE AND FEDERAL GRANTS/CONTRACTS FUNDING

<u>Grant, Federal Grantor/Pass Through Grantor/Program Title</u>	Project Code	CFDA #	Grant Award	Revenue Receivable At 7-1-11	Receipts	Expenditures	Revenue Receivable At 6-30-12
U.S. DEPARTMENT OF EDUCATION							
<u>Direct Programs:</u>							
Title VII Indian Education	561	84.060	\$ 97,976.00	\$ -	\$ 97,976.00	\$ 97,976.00	\$ -
Title VIII Impact Aid	591	84.041	99,829.50	-	99,829.50	-	(99,829.50)
<u>Pass-through State Department of Education</u>							
REAP Cluster							
Title II, Part D	546	84.318	1,696.22	-	-	1,696.22	1,696.22
REAP Title II, Part D	548	84.318	285.00	-	-	285.00	285.00
REAP Title II, Part A	541	84.367	47,738.28	-	-	47,738.28	47,738.28
Total for Program (Cluster)			<u>49,719.50</u>	<u>-</u>	<u>-</u>	<u>49,719.50</u>	<u>49,719.50</u>
ARRA Education Stabilization Cluster							
ARRA Education Jobs Fund	790	84.410A	162,471.00	-	162,471.00	162,471.00	-
Total for Program (Cluster)			<u>162,471.00</u>	<u>-</u>	<u>162,471.00</u>	<u>162,471.00</u>	<u>-</u>
Title I Cluster							
Title I	511	84.010	194,562.60	25,818.40	69,462.54	175,795.48	132,151.34
Total for Program (Cluster)			<u>194,562.60</u>	<u>25,818.40</u>	<u>69,462.54</u>	<u>175,795.48</u>	<u>132,151.34</u>
Safe & Drug Free School	551	84.186	-	-	5,745.88	5,745.88	-
Title VI, Part B	587	84.358	23,694.19	-	23,694.19	23,694.19	-
Total U.S. Department of Education			<u>628,252.79</u>	<u>25,818.40</u>	<u>459,179.11</u>	<u>515,402.05</u>	<u>82,041.34</u>
U.S. DEPARTMENT OF AGRICULTURE							
<u>Pass-through State Department of Education</u>							
Child Nutrition Cluster							
School Breakfast Program - cash assistance	764	10.553	71,681.73	-	71,681.73	71,681.73	-
National School Lunch Program:							
Cash assistance	763	10.555	242,430.55	-	242,430.55	242,430.55	-
Non-cash assistance: commodities	385	10.550	22,086.00	-	22,086.00	22,086.00	-
Total National School Lunch Program			<u>264,516.55</u>	<u>-</u>	<u>264,516.55</u>	<u>264,516.55</u>	<u>-</u>
Total for Program (Cluster)			<u>336,198.28</u>	<u>-</u>	<u>336,198.28</u>	<u>336,198.28</u>	<u>-</u>
<u>OTHER FEDERAL ASSISTANCE</u>							
Flood Control	770	-	2,171.48	-	2,171.48	2,171.48	-
Johnson O'Malley	563	35.130	23,694.19	15,304.99	26,774.99	21,499.89	10,029.89
Total Federal Grants and Assistance				<u>\$ 41,123.39</u>	<u>\$ 824,323.86</u>	<u>\$ 875,271.70</u>	<u>\$ 92,071.23</u>

**KEYS SCHOOL DISTRICT NO. 1-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2012.

NOTE 5: 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 the approval by the District's voters. General long-term debt of the District consists of lease/purchase agreements and outstanding general obligation bonds.

The following is a summary of the long term debt transactions of the District for the year ended June 30, 2012:

	<u>Bonds Payable</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
Balance July 1, 2011	\$ 755,000.00	\$ 76,751.87	\$831,751.87
Additions	0.00	30,382.23	30,382.23
Retirements	<u>(255,000.00)</u>	<u>(63,612.74)</u>	<u>(318,612.74)</u>
Balance June 30, 2012	<u>\$ 500,000.00</u>	<u>\$ 43,521.36</u>	<u>\$ 543,521.36</u>

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

	<u>Amount Outstanding</u>
Independent School District No. 1-006 Building Bonds Original Issue \$500,000.00. Interest rates of 1.10% due in installments of \$500,000.00 due May 1, 2013.	<u>\$ 500,000.00</u>
Total Outstanding	<u>\$ 500,000.00</u>

**KEYS SCHOOL DISTRICT NO. 1-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 5: GENERAL LONG-TERM DEBT (continued)

The annual debt service requirements of bond principal and payment of interest are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 500,000.00	\$ 5,500.00	\$505,500.00

Interest expense on general long-term debt incurred during the current year totals \$15,266.

As disclosed 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 assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the General Long-Term Account Group.

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

<u>Year Ending June 30</u>	<u>Athletic Field Lighting</u>	<u>Athletic Field Lighting</u>	<u>Gym Equipment</u>	<u>2008 Ford Trucks</u>	<u>2011 Suburban</u>	<u>Total</u>
2013	0.00	0.00	0.00	13,874.52	7,148.76	13,874.52
2014	0.00	0.00	0.00	2,312.39	7,148.76	9,461.15
2015	0.00	0.00	0.00	0.00	7,148.76	7,148.76
2016	0.00	0.00	0.00	0.00	7,148.76	7,148.76
2017	0.00	0.00	0.00	0.00	1,787.19	1,787.19
Total Minimum Lease Payments	\$ 0.00	\$ 0.00	\$0.00	\$16,186.91	\$30,382.23	\$46,569.14
Less: Amount Representing Interest	0.00	0.00	0.00	417.08	2,630.70	3,047.78
Present Value of Future Minimum Lease Payments	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$0.0</u>	<u>\$15,769.83</u>	<u>\$27,751.53</u>	<u>\$43,521.36</u>

NOTE 6: OTHER POST EMPLOYMENT BENEFITS

The District does not offer any early retirement incentive plans.

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 7: EMPLOYMENT RETIREMENT SYSTEM

The District participates in the state administered Oklahoma Teacher's Retirement System (The "System"), which is a cost-sharing, multiple employer public employee retirement system (PERS). Under the system contributions are made by the District, the State of Oklahoma, and the participating employees.

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.

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. If joining the system before 1992, the normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest three earning years (if under \$40,000.00 of compensation) of contributory service multiplied by the number of years of credited service. If joining the system after 1992, the normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent of the average of the highest five consecutive year of contributory service multiplied by the number of years of credited service. A participant in the system whose compensation is over \$40,000.00, the normal retirement benefit, is calculated using a two tier calculation. Tier one calculation is equal to two percent of \$40,000.00 times the number of years of credited service before July 1, 1995. Tier two calculation is equal to two percent of the appropriate three or five year average earnings times the number of years of credited service after July 1, 1995. 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 \$18,000.00 and the participant's contributions plus interest. If the beneficiary is a surviving spouse, 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 District, which are not actuarial determined, and its employees are established by statute and applied to the employee's earnings, plus employer paid fringe benefits. The total employer contribution rate is 11.75% for the year ended June 30, 2012. The State earmarks

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7: EMPLOYMENT RETIREMENT SYSTEM (continued)

3.54% of the sales and use tax and the individual and corporate income taxes collected by the state to provide the 4.7% of the rate, the District is contributing 7.60% for a total of 12.30% of applicable compensation for the year ended June 30, 2011. The combined state rate of 7.60% and local contribution rate of 7% will stabilize at 14.65%. The District is allowed by the Oklahoma Teachers Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The compensation for employees covered by the System for the year ended June 30, 2012 was \$3,711,988; the District's total compensation was \$4,311,320. Total contributions made during the year ended June 30, 2012 by the District amounted to \$563,602 which represents \$344,661 for the 9.50% statutory and \$218,941 for the 7% contribution paid by the employees. These contributions represented 11.5% of covered compensation. The District is required to match the retirement paid on salaries paid with federal funds.

The District's contributions to the System for the years ending June 30, 2012, 2011, and 2010 were \$344,661, \$256,712, and \$383,562, respectively.

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

Ten year historical trend information is presented in the Teacher's Retirement System of the 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.

**KEYS SCHOOL DISTRICT NO. 1-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7: EMPLOYMENT RETIREMENT SYSTEM (continued)

Schedule of Funding Progress (dollars in millions) (unaudited)

Actuarial Valuation Date	Actuarial Value of Assets(AVA) (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded Actuarial Accrued Liability (UAAL)(b-a)	Funder Ratio(a/b)	Annual Covered Payroll(c)	UAAL as % of Covered Payroll (b-a)/(c)
June 30, 2000	5,373.5	10,009.2	4,635.7	53.7%	2,738.3	169.3%
June 30, 2001	5,959.0	11,591.1	5,632.1	51.4%	2,990.5	188.3%
June 30, 2002	6,310.9	12,275.9	5,965.0	51.4%	3,047.1	195.8%
June 30, 2003	6,436.9	11,925.2	5,488.3	54.0%	3,045.7	180.2%
June 30, 2004	6,660.9	14,080.1	7,419.2	47.3%	3,030.7	244.8%
June 30, 2005	6,952.7	14,052.4	7,099.7	49.5%	3,175.2	223.6%
June 30, 2006	7,470.4	15,143.4	7,672.9	49.3%	3,354.9	228.7%
June 30, 2007	8,421.9	16,024.4	7,602.5	52.6%	3,598.9	211.2%
June 30, 2008	9,256.8	18,346.9	9,090.1	50.5%	3,751.4	243.3%
June 30, 2009	9,439.0	18,950.9	9,512.0	49.8%	3,807.9	249.8%
June 30, 2010	9,566.7	19,980.6	10,414.0	47.9%	3,854.8	270.2%

NOTE 8: CONTINGENCIES AND OTHER COMMITMENTS

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

NOTE 9: INSURANCE COVERAGE

The District purchases commercial insurance policies covering property casualty loss, public liability, school board member and administrator liability, and worker's compensation.

NOTE 10: SURETY BONDS

The District has the following surety bonds: Superintendent in the amount of \$100,000.00 bond no. 70752100 dated 7/1/2011-7/1/2012. Co-Custodian of Activity Fund the amount of \$25,000.00 bond no. 15346123 dated 7/15/2011-7/14/2012. Co-Custodian of Activity Fund and Encumbrance Clerk in the amount of \$25,000.00 bond no. 15346104 dated 7/15/2011-7/14/2012. Minutes Clerk and Custodian Child Nutrition in the amount of \$25,000.00 bond no. 15346114 dated 07/15/2011-7/14/2012. All were with Western Surety Company.

COMBINING FINANCIAL STATEMENTS

KEYS SCHOOL DISTRICT NO. 1-006
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Investments	\$ 18,248.28	\$ 53,222.46	\$ 71,470.74
Total Assets	<u>\$ 18,248.28</u>	<u>\$ 53,222.46</u>	<u>\$ 71,470.74</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Warrants Payable	\$ 1,924.00	\$ 605.10	\$ 2,529.10
Total Liabilities	<u>1,924.00</u>	<u>605.10</u>	<u>2,529.10</u>
Fund Balances:			
Undesignated	<u>16,324.28</u>	<u>52,617.36</u>	<u>68,941.64</u>
Total Fund Balances	<u>16,324.28</u>	<u>52,617.36</u>	<u>68,941.64</u>
Total Liabilities and Fund Balances	<u>\$ 18,248.28</u>	<u>\$ 53,222.46</u>	<u>\$ 71,470.74</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. I-006
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND BALANCES - REGULATORY BASIS
ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

	Building Fund	Child Nutrition Fund	Total (Memorandum Only Note 1) 2012
REVENUES:			
Local Sources	\$ 2,495.29	\$ 130,345.31	\$ 132,840.60
Intermediate Sources	133,317.25	-	133,317.25
State Sources	20.12	6,832.08	6,852.20
Federal Sources	-	314,112.28	314,112.28
Total Revenues Collected	<u>135,832.66</u>	<u>451,289.67</u>	<u>587,122.33</u>
EXPENDITURES:			
Instruction	-	-	-
Support Services	126,801.60	-	126,801.60
Non-Instructional Services	-	389,194.41	389,194.41
Capital Outlay	92,206.99	-	92,206.99
Other Outlays	-	70,000.00	70,000.00
Total Expenditures	<u>219,008.59</u>	<u>459,194.41</u>	<u>678,203.00</u>
Excess of Revenues Over (Under) Expenditures	<u>(83,175.93)</u>	<u>(7,904.74)</u>	<u>(91,080.67)</u>
Adjustments to Prior Year Encumbrances	-	-	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(83,175.93)</u>	<u>(7,904.74)</u>	<u>(91,080.67)</u>
Beginning Fund Balances	<u>99,500.21</u>	<u>60,522.10</u>	<u>160,022.31</u>
Ending Fund Balances	<u>\$ 16,324.28</u>	<u>\$ 52,617.36</u>	<u>\$ 68,941.64</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. 1-006
COMBINING STATEMENT OF REVENUES COLLECTED, EXPENDITURES PAID,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REGULATORY BASIS - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Special Revenue Funds			Child Nutrition Fund		
	Building Fund			Child Nutrition Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES COLLECTED:						
Local sources	\$ -	\$ -	\$ 2,495.29	\$ 35,713.17	\$ 35,713.17	\$ 130,345.31
Intermediate sources	124,744.57	124,744.57	133,317.25	-	-	-
State sources	-	-	20.12	6,889.57	6,889.57	6,832.08
Federal sources	-	-	-	247,684.83	247,684.83	314,112.28
Total revenues collected	124,744.57	124,744.57	135,832.66	290,287.57	290,287.57	451,289.67
EXPENDITURES PAID:						
Instruction	-	-	-	-	-	-
Support services	130,000.00	130,000.00	126,801.60	-	-	-
Non-instructional services	-	-	-	280,809.67	280,809.67	389,194.41
Capital outlays	94,244.78	94,244.78	92,206.99	-	-	-
Other outlays	-	-	-	70,000.00	70,000.00	70,000.00
Total expenditures paid	224,244.78	224,244.78	219,008.59	350,809.67	350,809.67	459,194.41
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(99,500.21)	(99,500.21)	(83,175.93)	(60,522.10)	(60,522.10)	(7,904.74)
Adjustments to prior year encumbrances	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	(99,500.21)	(99,500.21)	(83,175.93)	(60,522.10)	(60,522.10)	(7,904.74)
Fund balance, beginning of year	99,500.21	99,500.21	99,500.21	60,522.10	60,522.10	60,522.10
Fund balance, end of year	\$ -	\$ -	\$ 16,324.28	\$ -	\$ -	\$ 52,617.36

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. I-006
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
REGULATORY BASIS - FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Fund
	Activity Fund
<u>ASSETS</u>	
Cash and Investments	\$ 88,973.44
Total Assets	\$ 88,973.44
 <u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Due to Student Groups	\$ 88,973.44
Total Liabilities	\$ 88,973.44
Fund Balances:	
Unreserved:	
Undesignated	-
Total Fund Balances	-
Total Liabilities and Fund Balances	\$ 88,973.44

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. I-006
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - FIDUCIARY FUNDS
JUNE 30, 2012

	Agency Funds			Balance June 30, 2012
	Balance July 1, 2011	Additions	Deletions	
<u>ACTIVITIES</u>				
Student Activities	\$ 56,878.98	\$ 460,357.15	\$ 428,262.69	\$ 88,973.44
Total - All Agency Funds	<u>\$ 56,878.98</u>	<u>\$ 460,357.15</u>	<u>\$ 428,262.69</u>	<u>\$ 88,973.44</u>
<u>ASSETS</u>				
Cash	\$ 56,878.98	\$ 460,357.15	\$ 428,262.69	\$ 88,973.44
Total Assets	<u>\$ 56,878.98</u>	<u>\$ 460,357.15</u>	<u>\$ 428,262.69</u>	<u>\$ 88,973.44</u>
<u>LIABILITIES</u>				
Due to Student Groups	\$ 56,878.98	\$ 460,357.15	\$ 428,262.69	\$ 88,973.44
Total Liabilities	<u>\$ 56,878.98</u>	<u>\$ 460,357.15</u>	<u>\$ 428,262.69</u>	<u>\$ 88,973.44</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

KEYS SCHOOL DISTRICT NO. 1-006
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
FIDUCIARY FUND - SUB-ACCOUNTS OF AGENCY FUND
JUNE 30, 2012

	Elementary Fund	High School Fund	Totals 2012
ASSETS			
Cash and Investments	\$ 27,248.64	\$ 61,724.80	\$ 88,973.44
Total Assets	\$ 27,248.64	\$ 61,724.80	\$ 88,973.44
LIABILITIES AND FUND BALANCES			
Liabilities			
Due to Others	\$ 27,248.64	\$ 61,724.80	\$ 88,973.44
Total Liabilities	\$ 27,248.64	\$ 61,724.80	\$ 88,973.44
Fund Balances:			
Undesignated	\$ -	\$ -	\$ -
Total Fund Balances	\$ -	\$ -	\$ -
Total Liabilities and Fund Balances	\$ 27,248.64	\$ 61,724.80	\$ 88,973.44

The accompanying notes and auditor's report are an integral part of these financial statements.

**KEYS SCHOOL DISTRICT NO. 1-006
SCHEDULE OF FEDERAL AWARDS EXPENSED
FOR THE YEAR ENDED JUNE 30, 2012**

Grant, Federal Contract/Pass Through Grant/Program Title	CFDA Number	Project Number	Approved Amount	Balance at June 30, 2011	Receipts	Expenditures	Balance at June 30, 2012
U.S. DEPARTMENT OF EDUCATION							
<i>Direct Programs - Note 1</i>							
Title VII Indian Education			\$ 97,976.00	\$ -	\$ 97,976.00	\$ 97,976.00	\$ -
Title VIII Impact Aid	84.060	561					
	84.041	591	99,829.50	-	99,829.50	-	(99,829.50)
Missouri State Department of Education - Note 1							
REAP Cluster							
Title II, Part D	84.318	546	1,696.22	-	-	1,696.22	-
REAP Title II, Part D	84.318	548	285.00	-	-	285.00	-
REAP Title II, Part A	84.367	541	47,738.28	-	-	47,738.28	-
Total for Program (Cluster)			49,719.50	-	-	49,719.50	-
ARRA Education Stabilization Cluster							
ARRA Education Jobs Fund	84.410A	760	162,471.00	-	162,471.00	162,471.00	-
Total for Program (Cluster)			162,471.00	-	162,471.00	162,471.00	-
Title I Cluster							
Total for Program (Cluster)	84.010	511	194,562.60	25,818.40	69,462.54	175,295.48	132,151.34
			194,562.60	25,818.40	69,462.54	175,295.48	132,151.34
Safe & Drug Free School	84.186	551	-	-	5,745.88	5,745.88	-
Title VI, Part B	84.354	587	23,694.19	-	23,694.19	23,694.19	-
Total U.S. Department of Education			628,252.79	25,818.40	459,179.11	315,402.05	82,041.34
U.S. DEPARTMENT OF AGRICULTURE							
<i>Missouri State Department of Education</i>							
Child Nutrition Cluster							
School Breakfast Program - cash assistance	10.555	385	71,681.73	-	71,681.73	71,681.73	-
National School Lunch Program	10.555	385	342,430.55	-	342,430.55	342,430.55	-
Cash assistance	10.550	385	22,086.00	-	22,086.00	22,086.00	-
Total National School Lunch Program			264,516.55	-	264,516.55	264,516.55	-
Total for Program (Cluster)			335,198.28	-	316,198.28	336,198.28	-
OTHER FEDERAL PROGRAMS							
Flood Control		770	2,171.48	-	2,171.48	2,171.48	-
Johnson O'Malley	15.130	698	23,694.19	15,304.99	26,774.99	21,699.80	10,029.89
TOTAL FEDERAL ASSISTANCE			\$ 660,316.74	\$ 41,123.39	\$ 824,323.86	\$ 375,271.70	\$ 92,071.23

Note 1 - Funds were expended and properly reported in prior years.
 Note 2 - Commissions received were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by the amount.
 Note 3 - Items of Accounting is presented on an other comprehensive basis of accounting conforming with accounting practices prescribed or permitted by the Oklahoma State Department of Education.

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

The Honorable Board of Education
Keys School District No. I-006
Park Hill, Cherokee County, Oklahoma

I have audited the combined financial statements regulatory basis of Keys School District No. I-006, Oklahoma as listed in the Table of Contents, as of and for the year ended June 30, 2012, and have issued my report thereon dated January 4, 2013, which was adverse with regard to the application of accounting principles generally accepted in the United States of America because the entity prepares its financial statements on a statutory (regulatory) basis of accounting that conforms with the accounting practices prescribed by the Oklahoma State Department of Education and budget laws of the State of Oklahoma. In my report my opinion with regard to the prescribed basis of accounting was qualified for the omission of the general fixed asset account group. I conducted my 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 my audit, I considered Keys School District No. I-006's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keys School District No. I-006's financial statements are free of misstatement, I 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,

Report on Compliance (continued)

providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Keys School District No. 1-006 in a separate letter dated January 4, 2013.

This report is intended solely for the information and use of the Board of Education, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

January 4, 2013



Alan Chapman, CPA

**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
Keys School District, No. I-006
Park Hill, Cherokee County, Oklahoma

Compliance

I have audited the compliance of Keys School District No. I-006 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2012. Keys School District No. I-006'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 requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Keys School District No. I-006's management. My responsibility is to express an opinion on Keys School District No. I-006's compliance based on my audit.

I have conducted my 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 I 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 Keys School District No. I-006's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Keys School District No. I-006's compliance with those requirements.

In my opinion, Keys School District No. I-006 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Keys School District No. I-006 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 my audit, I considered Keys School District No. I-006's internal control over compliance with requirements that have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation on one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements or laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting and its operation that I have reported to the School's management in a separate letter dated January 4, 2013.

This report is intended solely for the information of the Board of Education, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

January 4, 2013



Alan Chapman, CPA

KEYS SCHOOL DISTRICT NO. 1-006
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Grant: Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Year</u>	<u>Federal CFDA Number</u>	<u>Amount of Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs:</u>			
Title VII Indian Education	6-30-11	84.060	\$ 97,976.00
Title VIII Impact Aid	6-30-11	84.041	\$ -
Pass-through State Department of Education			
REAP Cluster			
Title II, Part D	6-30-11	84.318	\$ 1,696.22
REAP Title II, Part D	6-30-11	84.318	\$ 285.00
REAP Title II, Part A	6-30-11	84.367	\$ 47,738.28
Total for Program (Cluster)			<u>\$ 48,023.28</u>
ARRA Education Stabilization Cluster			
ARRA Education Jobs Fund	6-30-11	84.410A	\$ 162,471.00
Total for Program (Cluster)			<u>\$ 162,471.00</u>
Title I Cluster			
Title I	6-30-11	84.010	\$ 175,795.48
Total for Program (Cluster)			<u>\$ 175,795.48</u>
Safe & Drug Free School			
Title VI Part B	6-30-11	84.358	\$ 5,745.88
Total U.S. Department of Education			<u>\$ 23,694.19</u>
			<u>\$ 515,402.05</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through State Department of Education			
Child Nutrition Cluster			
School Breakfast Program - cash assistance	6-30-11	10.553	\$ 71,681.73
National School Lunch Program:			
Cash assistance	6-30-11	10.555	\$ 242,430.55
Non-cash assistance: commodities	6-30-11	10.550	\$ 22,086.00
Total National School Lunch Program			<u>\$ 264,516.55</u>
Total for Program (Cluster)			<u>\$ 336,198.28</u>
OTHER FEDERAL ASSISTANCE:			
Flood Control	6-30-11	-	\$ 2,171.48
Johnson O'Malley	6-30-11	15.130	\$ 21,499.89
Total Federal Grants and Assistance			<u>\$ 875,271.70</u>

Note: There were no amounts passed to subrecipients.

Note: The expenditures are presented using the regulatory basis of accounting.

Note: Grantor provides adequate insurance coverage against loss on assets purchased with Federal Awards.

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

**KEYS SCHOOL DISTRICT NO. I-006
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

Section I - Summary of Auditor's Results:

Financial Statements

Type of Auditor's Report issued: I have audited the combined financial statements - regulatory basis of Keys School District No. I-006, Park Hill, Oklahoma, as of and for the year ended June 30, 2012, and have issued my qualified report thereon dated January 4, 2013. In my opinion letter, my report was adverse because the School District prepares its financial statements on a basis of accounting other than generally accepted accounting principles. This basis of accounting is prescribed by the laws of the State of Oklahoma. Also my report was qualified because the financial statements do not include the general fixed asset account group.

Internal Control Over Financial Reporting:

Material weaknesses identified?	NONE REPORTED
Reportable conditions identified not considered to be material weaknesses?	NONE REPORTED
Noncompliance material to financial statements noted?	NONE REPORTED

Federal Awards

Internal Control Over Major Programs:

Material weaknesses identified?	NONE REPORTED
Reportable conditions identified not considered to be material weaknesses?	NONE REPORTED

Type of Auditor's Report Issued on Compliance for Major Programs:

In conjunction with the audited combined financial statements-regulatory basis of Keys School District No. I-006, Park Hill, Oklahoma, as of and for the year ended June 30, 2012, I have issued my unqualified report thereon dated January 4, 2013, on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	NONE REPORTED
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Identification of Major Programs:

Title I, Part A (84.010)	\$175,795.48
Lunch (10.555)	242,430.55
Title VII Indian Education (84.041)	<u>97,976.00</u>
	<u>\$516,202.03</u>

The dollar threshold used to distinguish between type A and type B programs was \$300,000.00. The percentage of coverage of rule was used to achieve 50% of Federal program expenditures.

	<u>YES</u>	<u>NO</u>
Auditee qualified as low-risk auditee?		X

Section II - Financial Statement Findings:

No matters were reported.

Section III - Federal Award Findings and Questioned Costs - Current Year:

No questioned costs were identified.

Section IV - Federal Award Findings and Questioned Costs - Prior Year:

No questioned costs were identified.

KEYS SCHOOL DISTRICT NO. I-006
STATEMENT OF PRIOR YEAR FINDINGS
JUNE 30, 2012

PRIOR YEAR FINDINGS:

There were no prior year findings.

KEYS SCHOOL DISTRICT NO. I-006
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma

County of Cherokee

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 Keys School for the audit year 2011-2012.

Alan Chapman, C.P.A.

Alan Chapman

By _____
Authorized Agent

Subscribed and sworn to before me this 4 day of January, 2012.

Lori Kimble
Notary Public

My Commission Expires: 02/05/14
My Commission Number: 02002080



**AUDIT ACKNOWLEDGMENT
KEYS SCHOOL DISTRICT NO. I-006
CHEROKEE COUNTY, OKLAHOMA
JULY 1, 2011 TO JUNE 30, 2012**

The annual independent audit for the Keys School District, was presented to the Board of Education in an Open Meeting on January 10, 2013 by Alan Chapman, CPA.

The School Board acknowledges that as the governing body of the District, responsible for the District's financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgment form, will be sent to the Oklahoma State Department of Education within thirty (30) days from its presentation, as stated in 70 O.S. 22-108:

"The local board of education shall forward a copy of the audit report to the State Board of Education within thirty (30) days after receipt of said audit."

Kevin Jordan
Superintendent

John W. Rogers
Board of Education President

Jimmie
Board of Education Vice President

Tom Sully
Board of Education Member

Al Mouse
Board of Education Member

Alan King
Board of Education Member

Board of Education Member

Board of Education Member

Subscribed and sworn to before me on this 10 day of November 2013

My Commission Expires: 02/05/14
My Commission Number: 02002080

Lori Kimble
Notary Public

