

AUDIT REPORT

KEYS SCHOOL DISTRICT NO. I-006

PARK HILL, CHEROKEE COUNTY, OKLAHOMA

JULY 1, 2015 THROUGH JUNE 30, 2016

AUDITED BY

ALAN CHAPMAN

CERTIFIED PUBLIC ACCOUNTANT

401 S. WATER STREET

TAHLEQUAH, OKLAHOMA

**KEYS SCHOOL DISTRICT No. I-006
CHEROKEE COUNTY, OKLAHOMA
JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Keys School District No. I006
Cherokee County, Oklahoma

I have audited the accompanying combined fund type and account group financial statements - regulatory basis - of Keys School District No. I006, Cherokee County, Oklahoma as listed in the table of contents, as of and for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education as described in Note 1, to meet the financial reporting requirements of the State of Oklahoma. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *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 financial statements are free of material misstatement.

An audit includes performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse and qualified opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 (C) to the financial statements, the financial statements are prepared by the Keys School District No. I006, Cherokee County, Oklahoma, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 (C) and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraphs, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Keys School District No. I006, Cherokee County, Oklahoma as of June 30, 2016, or the revenues, expenses, and changes in net position and, where applicable, cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

The financial statements referred to in the first paragraph do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting 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, except for the effects of the matter described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and fund balances arising from regulatory basis transactions of each fund type and account group of Keys School District No. I006, Cherokee County, Oklahoma as of June 30, 2016, and the revenues collected and expenditures paid and encumbered, of each fund type, for the year then ended, on the regulatory basis of accounting described in the Note 1 (C).

Other Matter

Other Information

My audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements with the combined financial statements. The combining fund statements and schedules 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 of the Keys School District No. I006. Also, the accompanying schedule of federal awards is presented for additional analysis as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, (The Uniform Guidance), and is also not a required part of the financial statements.

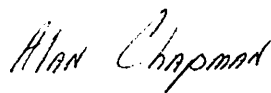
The other supplementary information and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements, and other additional procedures, including comparing and

reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the other supplementary information including the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1 (C).

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my reported dated September 29, 2016, on my consideration of the Keys School District No. I006, Cherokee County, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of my 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* in considering Keys School District No. I006, Cherokee County, Oklahoma's internal control over financial reporting and compliance.

September 29, 2016

A handwritten signature in cursive script that reads "Alan Chapman".

Alan Chapman, CPA

COMBINED FINANCIAL STATEMENTS-REGULATORY BASIS

KEYS SCHOOL DISTRICT NO. 1-006
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2016

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt	Note 1) 2016
<u>ASSETS</u>							
Cash and Investments	\$ 1,078,267.07	\$ 379,624.47	\$ 294,416.15	\$ -	\$ 126,441.90	\$ -	\$ 1,878,749.59
Amount Available in Debt Service Fund	-	-	-	-	-	294,416.15	294,416.15
Amount to be Provided for Retirement of General Long-Term Debt	-	-	-	-	-	265,583.85	265,583.85
Amount to be Provided for Capitalized Lease Agreements	-	-	-	-	-	97,081.07	97,081.07
Total Assets	<u>\$ 1,078,267.07</u>	<u>\$ 379,624.47</u>	<u>\$ 294,416.15</u>	<u>\$ -</u>	<u>\$ 126,441.90</u>	<u>\$ 657,081.07</u>	<u>\$ 2,535,830.66</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Warrants Payable	\$ 537,554.75	\$ 2,192.69	\$ -	\$ -	\$ -	\$ -	\$ 539,747.44
Due to Others	-	-	-	-	126,441.90	-	126,441.90
General Obligation Bonds Payable	-	-	-	-	-	560,000.00	560,000.00
Capitalized Lease Obligations Payable	-	-	-	-	-	97,081.07	97,081.07
Total Liabilities	<u>537,554.75</u>	<u>2,192.69</u>	<u>-</u>	<u>-</u>	<u>126,441.90</u>	<u>657,081.07</u>	<u>1,323,270.41</u>
Fund Balances:							
Designated for Capital Projects	-	-	-	-	-	-	-
Designated for Debt Service	-	-	294,416.15	-	-	-	294,416.15
Undesignated	<u>540,712.32</u>	<u>377,431.78</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>918,144.10</u>
Total Fund Balances	<u>540,712.32</u>	<u>377,431.78</u>	<u>294,416.15</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,212,560.25</u>
Total Liabilities and Fund Balances	<u>\$ 1,078,267.07</u>	<u>\$ 379,624.47</u>	<u>\$ 294,416.15</u>	<u>\$ -</u>	<u>\$ 126,441.90</u>	<u>\$ 657,081.07</u>	<u>\$ 2,535,830.66</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 - REGULATORY BASIS
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2016

	Governmental Fund Types				Total (Memorandum Only Note 1) 2016
	General	Special Revenue	Debt Service	Capital Projects	
<u>REVENUES:</u>					
Local Sources	\$ 227,643.86	\$ 41,289.87	\$ 4,090.77	\$ -	\$ 273,024.50
Intermediate Sources	1,175,631.53	150,833.18	282,073.28	63.41	1,608,601.40
State Sources	3,733,830.80	4,177.89	36.36	-	3,738,045.05
Federal Sources	1,115,995.76	436,382.36	-	-	1,552,378.12
Total Revenues Collected	<u>6,253,101.95</u>	<u>632,683.30</u>	<u>286,200.41</u>	<u>63.41</u>	<u>7,172,049.07</u>
<u>EXPENDITURES:</u>					
Instruction	3,364,189.66	-	-	-	3,364,189.66
Support Services	2,395,109.40	132,279.92	-	-	2,527,389.32
Non-Instructional Services	230,285.46	268,306.21	-	-	498,591.67
Capital Outlay	-	161,565.26	-	560,300.00	721,865.26
Other Outlays	-	-	-	-	-
Debt Service:					
Principal Retirement	-	-	-	-	-
Interest and Fiscal Agent Charges	-	-	5,320.00	-	5,320.00
Total Expenditures	<u>5,989,584.52</u>	<u>562,151.39</u>	<u>5,320.00</u>	<u>560,300.00</u>	<u>7,117,355.91</u>
Other Financing Sources (Uses):					
Bond Sale Proceeds	-	-	-	-	-
Excess of Revenues Over (Under) Expenditures	<u>263,517.43</u>	<u>70,531.91</u>	<u>280,880.41</u>	<u>(560,236.59)</u>	<u>54,693.16</u>
Adjustments to Prior Year Encumbrances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	263,517.43	70,531.91	280,880.41	(560,236.59)	54,693.16
Beginning Fund Balances	<u>277,194.89</u>	<u>306,899.87</u>	<u>13,535.74</u>	<u>560,236.59</u>	<u>1,157,867.09</u>
Ending Fund Balances	<u>\$ 540,712.32</u>	<u>\$ 377,431.78</u>	<u>\$ 294,416.15</u>	<u>\$ -</u>	<u>\$ 1,212,560.25</u>

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

KEYS SCHOOL DISTRICT NO. I-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, 2016

	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	\$ 87,000.00	\$ 87,000.00	\$ 227,643.86	\$ 95,165.84	\$ 95,165.84	\$ 41,289.87
Intermediate sources	1,059,456.50	1,059,456.50	1,175,631.53	138,342.05	138,342.05	150,833.18
State sources	3,644,234.70	3,644,234.70	3,733,830.80	5,540.81	5,540.81	4,177.89
Federal sources	1,314,623.09	1,314,623.09	1,115,995.76	263,719.16	263,719.16	436,382.36
Total revenues collected	<u>6,105,314.29</u>	<u>6,105,314.29</u>	<u>6,253,101.95</u>	<u>502,767.86</u>	<u>502,767.86</u>	<u>632,683.30</u>
<u>EXPENDITURES PAID:</u>						
Instruction	3,722,509.18	3,722,509.18	3,364,189.66	-	-	-
Support services	2,420,000.00	2,420,000.00	2,395,109.40	227,441.31	227,441.31	132,279.92
Non-instructional services	240,000.00	240,000.00	230,285.46	402,226.42	402,226.42	268,306.21
Capital outlays	-	-	-	180,000.00	180,000.00	161,565.26
Other outlays	-	-	-	-	-	-
Total expenditures paid	<u>6,382,509.18</u>	<u>6,382,509.18</u>	<u>5,989,584.52</u>	<u>809,667.73</u>	<u>809,667.73</u>	<u>562,151.39</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(277,194.89)</u>	<u>(277,194.89)</u>	<u>263,517.43</u>	<u>(306,899.87)</u>	<u>(306,899.87)</u>	<u>70,531.91</u>
Adjustments to prior year encumbrances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(277,194.89)</u>	<u>(277,194.89)</u>	<u>263,517.43</u>	<u>(306,899.87)</u>	<u>(306,899.87)</u>	<u>70,531.91</u>
Fund balance, beginning of year	<u>277,194.89</u>	<u>277,194.89</u>	<u>277,194.89</u>	<u>306,899.87</u>	<u>306,899.87</u>	<u>306,899.87</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 540,712.32</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 377,431.78</u>

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

KEYS SCHOOL DISTRICT NO. I-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, 2016

	<u>Debt Service</u>			<u>Capital Projects</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
<u>REVENUES COLLECTED:</u>						
Local sources	\$ 4,090.77	\$ 4,090.77	\$ 4,090.77	\$ -	\$ -	\$ -
Intermediate sources	282,073.28	282,073.28	282,073.28	-	-	-
State sources	36.36	36.36	36.36	-	-	-
Federal sources	-	-	-	-	-	-
Total revenues collected	<u>286,200.41</u>	<u>286,200.41</u>	<u>286,200.41</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>EXPENDITURES PAID:</u>						
Capital Outlay	-	-	-	560,236.59	560,236.59	560,236.59
Principal Retirement	-	-	-	-	-	-
Interest and Fiscal Agent Charges	<u>5,320.00</u>	<u>5,320.00</u>	<u>5,320.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures paid	<u>5,320.00</u>	<u>5,320.00</u>	<u>5,320.00</u>	<u>560,236.59</u>	<u>560,236.59</u>	<u>560,236.59</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>280,880.41</u>	<u>280,880.41</u>	<u>280,880.41</u>	<u>(560,236.59)</u>	<u>(560,236.59)</u>	<u>(560,236.59)</u>
Adjustments to prior year encumbrances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	280,880.41	280,880.41	280,880.41	(560,236.59)	(560,236.59)	(560,236.59)
Fund balance, beginning of year	<u>13,535.74</u>	<u>13,535.74</u>	<u>13,535.74</u>	<u>560,236.59</u>	<u>560,236.59</u>	<u>560,236.59</u>
Fund balance, end of year	<u>\$ 294,416.15</u>	<u>\$ 294,416.15</u>	<u>\$ 294,416.15</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

NOTES TO THE FINANCIAL STATEMENTS-REGULATORY BASIS

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016

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. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016

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, 2016

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 2015-2016 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, 2016

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, 2016, 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, 2016

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, 2016**

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 2016.

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, 2016, 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, 2016, were not exposed to Custodial Credit Risk, Investment Credit Risk, Investment Interest Rate Risk, or Concentration of Investment Credit Risk.

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

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

<u>Grant: Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Project Code</u>	<u>CFDA #</u>	<u>Grant Award</u>	<u>Revenue Receivable At 7-1-15</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Revenue Receivable At 6-30-16</u>
U.S. DEPARTMENT OF EDUCATION							
<u>Direct Programs:</u>							
Title VII Indian Education	561	84.060	\$ 98,528.00	\$ -	\$ 98,830.00	\$ 98,830.00	\$ -
Title VIII Impact Aid	591/592	84.041	172,338.20	-	172,338.20	172,338.20	-
Teaching Efficiency and Motivating Students	774	84.215	387,773.29	-	315,071.30	272,183.66	(42,887.64)
Carol M. White Physical Education	778	84.215	415,627.63	-	204,739.14	415,627.63	210,888.49
<u>Pass-through State Department of Education</u>							
REAP Title II, Part A	541	84.367	18,433.00	3,113.41	18,007.71	18,306.30	3,412.00
Title I	511	84.010	218,094.89	38,960.82	231,901.61	218,094.89	25,154.10
Special Education Cluster							
IDEA-B Flow Through	621	84.027	169,675.98	-	169,675.98	169,675.98	-
IDEA-B Preschool	641	84.173	5,629.74	-	5,629.74	5,629.74	-
Total for Program (Cluster)			<u>175,305.72</u>	<u>-</u>	<u>175,305.72</u>	<u>175,305.72</u>	<u>-</u>
Title VI, Part B	587	84.358	18,245.53	16,000.00	31,231.69	18,245.53	3,013.84
Total U.S. Department of Education			<u>1,504,346.26</u>	<u>58,074.23</u>	<u>1,247,425.37</u>	<u>1,388,931.93</u>	<u>199,580.79</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	53,280.26	-	53,280.26	53,280.26	-
National School Lunch Program:							
Cash assistance	763	10.555	223,653.90	-	223,653.90	223,653.90	-
Pass-through State Department of Human Services							
Non-cash assistance: commodities	385	10.550	16,722.07	-	16,722.07	16,722.07	-
Total National School Lunch Program			<u>240,375.97</u>	<u>-</u>	<u>240,375.97</u>	<u>240,375.97</u>	<u>-</u>
Total for Program (Cluster)			<u>293,656.23</u>	<u>-</u>	<u>293,656.23</u>	<u>293,656.23</u>	<u>-</u>
<u>OTHER FEDERAL ASSISTANCE</u>							
Medicaid	698	93.778	2,276.72	-	2,276.72	2,276.72	-
Johnson O'Malley	563	15.130	19,125.00	15,806.08	22,837.81	18,903.93	11,872.20
Total Federal Grants and Assistance				<u><u>\$ 73,880.31</u></u>	<u><u>\$ 1,566,196.13</u></u>	<u><u>\$ 1,703,768.81</u></u>	<u><u>\$ 211,452.99</u></u>

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 4: INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2016.

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, 2016:

	<u>Bonds Payable</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
Balance July 1, 2015	\$ 560,000.00	\$ 132,419.75	\$ 692,419.75
Additions	0.00	0.00	0.00
Retirements	<u>0.00</u>	<u>(35,338.68)</u>	<u>(35,338.68)</u>
Balance June 30, 2016	<u>\$ 560,000.00</u>	<u>\$ 97,081.07</u>	<u>\$ 657,081.07</u>

A brief description of the outstanding general obligation issues at June 30, 2016, is set forth below:

	<u>Amount Outstanding</u>
Independent School District No. I-006 Building Bonds Original Issue \$560,000.00. Interest rates of .950% due in installments of \$560,000.00 due May 1, 2017.	<u>\$ 560,000.00</u>
Total Outstanding	<u>\$ 560,000.00</u>

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 5: GENERAL LONG-TERM DEBT (continued)

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 560,000.00	\$ 5,320.00	\$565,320.00

Interest expense on general long-term debt incurred during the current year totals \$3,185.

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 2016, are as follows:

<u>Year Ending June 30</u>	<u>Chevrolet Van</u>	<u>2011 Suburban</u>	<u>2015 Ford Truck</u>	<u>Band Equipment</u>	<u>Total</u>
2017	7,389.96	1,787.19	7,962.36	16,022.64	33,162.15
2018	7,389.96	0.00	7,962.36	16,022.64	31,374.96
2019	4,926.65	0.00	7,962.36	16,022.64	28,911.65
2020	0.00	0.00	3,981.18	2,670.46	6,651.64
Total Minimum Lease Payments	\$ 19,706.57	\$ 1,787.19	\$ 27,868.26	\$ 50,738.38	\$ 100,100.40
Less: Amount Representing Interest	1,106.77	12.59	1,412.65	487.32	3,019.33
Present Value of Future Minimum Lease Payments	\$ 18,599.80	\$ 1,774.60	\$ 26,455.61	\$ 50,251.06	\$ 97,081.07

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, 2016

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. 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 earning years on contributory service multiplied by the number of years 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 \$18,000.00 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 District is required by statute to contribute 9.5% of applicable compensation for the year ended June 30, 2016. 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%.

KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 7: EMPLOYMENT RETIREMENT SYSTEM (continued)

The District's contributions to the System for the years ending June 30, 2016, 2015, and 2014 were, \$628,590, \$407,454 and, \$344,661 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, 2015. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

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

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets(AVA)</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)(b)</u>	<u>Unfunded</u> <u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(UAAL)(b-a)</u>	<u>Funder</u> <u>Ratio(a/b)</u>	<u>Annual</u> <u>Covered</u> <u>Payroll(c)</u>	<u>UAAL as %</u> <u>of Covered</u> <u>Payroll</u> <u>(b-a)/(c)</u>
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%
June 30, 2011	9,960.6	17,560.8	7,600.2	56.7%	3,773.3	201.4%
June 30, 2012	10,190.5	18,588.0	8,397.6	54.8%	3,924.8	214.0%
June 30, 2013	10,861.1	18,973.2	8,112.1	57.2%	3,933.1	206.3%
June 30, 2014	12,369.0	19,575.6	7,206.6	63.2%	4,002.9	180.0%
June 30, 2015	13,771.9	20,692.6	6,920.7	66.6%	4,231.8	163.5%

**KEYS SCHOOL DISTRICT NO. I-006
NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

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: RISK MANAGEMENT

The District purchases commercial insurance policies covering property casualty loss, public liability, school board member and administrator liability, and worker's compensation. The District also purchases surety bonds for employees in all positions required by state law to be bonded. Management believes such coverage is sufficient to preclude any significant to preclude any significant uninsured losses to the District.

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

NOTE 10: SURETY BONDS

The District has the following surety bonds: Superintendent in the amount of \$100,000.00 bond no. 61393999 dated 6/4/2015-7/1/2016. Co-Custodian of Activity Fund the amount of \$25,000.00 bond no. 62205107 dated 11/1/2015-11/1/2016. Co-Custodian of Activity Fund and Encumbrance Clerk in the amount of \$25,000.00 bond no. 61418824 dated 7/9/2015-7/14/2016. Minutes Clerk and Custodian Child Nutrition in the amount of \$25,000.00 bond no. 15346114 dated 07/15/2015-7/14/2016. The Treasurer also had bond no. 71244437 dated 2/17/16-2/17/17 in the amount of \$50,000.00. All were with Western Surety Company.

NOTE 11: SUBSEQUENT EVENTS

Subsequent events have been evaluated though September 29, 2016, which is the date the financial statements were available to be issued.

COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS

KEYS SCHOOL DISTRICT NO. 1006
COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2016

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Investments	\$ 287,506.26	\$ 92,118.21	\$ 379,624.47
Total Assets	<u>\$ 287,506.26</u>	<u>\$ 92,118.21</u>	<u>\$ 379,624.47</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Warrants Payable	\$ -	\$ 2,192.69	\$ 2,192.69
Total Liabilities	<u>-</u>	<u>2,192.69</u>	<u>2,192.69</u>
Fund Balances:			
Undesignated	<u>287,506.26</u>	<u>89,925.52</u>	<u>377,431.78</u>
Total Fund Balances	<u>287,506.26</u>	<u>89,925.52</u>	<u>377,431.78</u>
Total Liabilities and Fund Balances	<u>\$ 287,506.26</u>	<u>\$ 92,118.21</u>	<u>\$ 379,624.47</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, 2016

	Building Fund	Child Nutrition Fund	Total (Memorandum Only Note 1) 2016
<u>REVENUES:</u>			
Local Sources	\$ 2,262.59	\$ 39,027.28	\$ 41,289.87
Intermediate Sources	150,833.18	-	150,833.18
State Sources	8.21	4,169.68	4,177.89
Federal Sources	<u>159,148.20</u>	<u>277,234.16</u>	<u>436,382.36</u>
Total Revenues Collected	<u>312,252.18</u>	<u>320,431.12</u>	<u>632,683.30</u>
<u>EXPENDITURES:</u>			
Instruction	-	-	-
Support Services	132,279.92	-	132,279.92
Non-Instructional Services	-	268,306.21	268,306.21
Capital Outlay	161,565.26	-	161,565.26
Other Outlays	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>293,845.18</u>	<u>268,306.21</u>	<u>562,151.39</u>
Excess of Revenues Over (Under) Expenditures	<u>18,407.00</u>	<u>52,124.91</u>	<u>70,531.91</u>
Adjustments to Prior Year Encumbrances	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	18,407.00	52,124.91	70,531.91
Beginning Fund Balances	<u>269,099.26</u>	<u>37,800.61</u>	<u>306,899.87</u>
Ending Fund Balances	<u><u>\$ 287,506.26</u></u>	<u><u>\$ 89,925.52</u></u>	<u><u>\$ 377,431.78</u></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 - BUDGET AND ACTUAL
REGULATORY BASIS - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Funds					
	Building Fund			Child Nutrition Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
REVENUES COLLECTED:						
Local sources	\$ -	\$ -	\$ 2,262.59	\$ 95,165.84	\$ 95,165.84	\$ 39,027.28
Intermediate sources	138,342.05	138,342.05	150,833.18	-	-	-
State sources	-	-	8.21	5,540.81	5,540.81	4,169.68
Federal sources	-	-	159,148.20	263,719.16	263,719.16	277,234.16
Total revenues collected	<u>138,342.05</u>	<u>138,342.05</u>	<u>312,252.18</u>	<u>364,425.81</u>	<u>364,425.81</u>	<u>320,431.12</u>
EXPENDITURES PAID:						
Instruction	-	-	-	-	-	-
Support services	227,441.31	227,441.31	132,279.92	-	-	-
Non-instructional services	-	-	-	402,226.42	402,226.42	268,306.21
Capital outlays	180,000.00	180,000.00	161,565.26	-	-	-
Other outlays	-	-	-	-	-	-
Total expenditures paid	<u>407,441.31</u>	<u>407,441.31</u>	<u>293,845.18</u>	<u>402,226.42</u>	<u>402,226.42</u>	<u>268,306.21</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	<u>(269,099.26)</u>	<u>(269,099.26)</u>	<u>18,407.00</u>	<u>(37,800.61)</u>	<u>(37,800.61)</u>	<u>52,124.91</u>
Adjustments to prior year encumbrances	-	-	-	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other financing sources (uses)	<u>(269,099.26)</u>	<u>(269,099.26)</u>	<u>18,407.00</u>	<u>(37,800.61)</u>	<u>(37,800.61)</u>	<u>52,124.91</u>
Fund balance, beginning of year	<u>269,099.26</u>	<u>269,099.26</u>	<u>269,099.26</u>	<u>37,800.61</u>	<u>37,800.61</u>	<u>37,800.61</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 287,506.26</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,925.52</u>

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, 2016

	Agency Fund Activity Fund	Total 2016
<u>ASSETS</u>		
Cash and Investments	\$ 126,441.90	\$ 126,441.90
Total Assets	<u>\$ 126,441.90</u>	<u>\$ 126,441.90</u>
 <u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Due to Student Groups	\$ 126,441.90	\$ 126,441.90
Total Liabilities	<u>\$ 126,441.90</u>	<u>\$ 126,441.90</u>
 Fund Balances:		
Unreserved:		
Undesignated	-	-
Total Fund Balances	<u>-</u>	<u>-</u>
 Total Liabilities and Fund Balances	<u>\$ 126,441.90</u>	<u>\$ 126,441.90</u>

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, 2016

	Agency Funds			
	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<u>ACTIVITIES</u>				
Student Activities	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90
Total - All Agency Funds	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90
<u>ASSETS</u>				
Cash	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90
Total Assets	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90
<u>LIABILITIES</u>				
Due to Student Groups	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90
Total Liabilities	\$ 91,781.28	\$ 495,788.51	\$ 461,127.89	\$ 126,441.90

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

**KEYS SCHOOL DISTRICT NO. I-006
SCHEDULE OF FEDERAL AWARDS EXPENSED
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Grant: Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Project Number</u>	<u>Approved Amount</u>	<u>Balance at June 30, 2015</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Balance at June 30, 2016</u>
U.S. DEPARTMENT OF EDUCATION							
<u>Direct Programs:</u> - Note 1							
Title VII Indian Education	84.060	561	\$ 98,528.00	\$ -	\$ 98,830.00	\$ 98,830.00	\$ -
Title VIII Impact Aid	84.041	591/592	172,338.20	-	172,338.20	172,338.20	-
Teaching Efficiency and Motivating Students	84.215	774	387,773.29	-	315,071.30	272,183.66	(42,887.64)
Carol M. White Physical Education	84.215	774	415,627.63	-	204,739.14	415,627.63	210,888.49
<u>Pass-through State Department of Education</u> - Note 1							
REAP Title II, Part A	84.367	541	19,108.20	3,113.41	18,007.71	18,306.30	3,412.00
Title I	84.010	511	218,094.89	38,960.82	231,901.61	218,094.89	25,154.10
Special Education Cluster							
IDEA-B Flow Through	84.027	621	169,675.98	-	169,675.98	169,675.98	-
IDEA-B Preschool	84.173	641	5,629.74	-	5,629.74	5,629.74	-
Total for Program (Cluster)			175,305.72	-	175,305.72	175,305.72	-
Title VI, Part B	84.358	587	18,245.53	16,000.00	31,231.69	18,245.53	3,013.84
Total U.S. Department of Education			1,504,346.26	58,074.23	1,247,425.37	1,388,931.93	199,580.79
U.S. DEPARTMENT OF AGRICULTURE							
<u>Pass-through State Department of Education</u>							
Child Nutrition Cluster							
School Breakfast Program - cash assistance	10.553	764	53,280.26	-	53,280.26	53,280.26	-
National School Lunch Program:							
Cash assistance	10.555	763	223,653.90	-	223,653.90	223,653.90	-
Pass-through State Department of Human Services							
Non-cash assistance: commodities	10.550	385	16,722.07	-	16,722.07	16,722.07	-
Total National School Lunch Program			240,375.97	-	240,375.97	240,375.97	-
Total for Program (Cluster)			293,656.23	-	293,656.23	293,656.23	-
OTHER FEDERAL PROGRAMS							
Medicaid	93.778	698	2,276.72	-	2,276.72	2,276.72	-
Johnson O'Malley	15.130	563	19,125.00	15,806.08	22,837.81	18,903.93	11,872.20
TOTAL FEDERAL ASSISTANCE			<u>\$ 1,819,404.21</u>	<u>\$ 73,880.31</u>	<u>\$ 1,566,196.13</u>	<u>\$ 1,703,768.81</u>	<u>\$ 211,452.99</u>

Note 1 - Funds were expended and properly reported in prior years.

Note 2 - Commodities received were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by the amount.

Note 3 - Basis 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. I006
Cherokee County, Oklahoma

I have audited, 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, the accompanying fund type and account group financial statements regulatory basis within the combined financial statements of Keys School District No. I006, Oklahoma (District), as listed in the Table of Contents, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued my report thereon dated September 29, 2016, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, my report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my 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, I 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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keys School District No. 1006 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, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

September 29, 2016

A handwritten signature in cursive script that reads "Alan Chapman".

Alan Chapman, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Briggs School District, No. CO44, Cherokee County, Oklahoma (The District) compliance with the types of compliance requirements described in *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (The Uniform Guidance) that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs 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 *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (The Uniform Guidance). Those standards and requirements of *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards*, (The Uniform Guidance) 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (The Uniform Guidance), but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *Title 2 U.S. Code of Federal Regulation (CFR) Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards*, (The Uniform Guidance). Accordingly, this report is not suitable for any other purpose.



Alan Chapman, CPA
January 10, 2016

KEYS SCHOOL DISTRICT NO. I-006
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Grant: Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Year</u>	<u>Federal CFDA Number</u>	<u>Amount of Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Direct Programs:</u>			
Title VII Indian Education	6-30-16	84.060	\$ 98,830.00
Title VIII Impact Aid	6-30-16	84.041	\$ 172,338.20
Teaching Efficiency and Motivating Students	6-30-16	84.215	\$ 272,183.66
Carol M. White Physical Education	6-30-16	84.215	\$ 415,627.63
Pass-through State Department of Education			
REAP Title II, Part A	6-30-16	84.367	\$ 18,306.30
Title I	6-30-16	84.010	\$ 218,094.89
Special Education Cluster			
IDEA-B Flow Through	6-30-16	84.027	\$ 169,675.98
IDEA-B Preschool	6-30-16	84.173	\$ 5,629.74
Total for Program (Cluster)			<u>\$ 175,305.72</u>
Title VI, Part B	6-30-16	84.358	\$ 18,245.53
Total U.S. Department of Education			<u>\$ 1,388,931.93</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through State Department of Education			
Child Nutrition Cluster			
School Breakfast Program - cash assistance	6-30-16	10.553	\$ 53,280.26
National School Lunch Program:			
Cash assistance	6-30-16	10.555	\$ 223,653.90
Non-cash assistance: commodities	6-30-16	10.550	\$ 16,722.07
Total National School Lunch Program			<u>\$ 240,375.97</u>
Total for Program (Cluster)			<u>\$ 293,656.23</u>
OTHER FEDERAL ASSISTANCE			
Medicaid	6-30-16	93.778	\$ 2,276.72
Johnson O'Malley	6-30-16	15.130	\$ 18,903.93
Total Federal Grants and Assistance			<u>\$ 1,703,768.81</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, 2016**

Section I - Summary of Auditor's Results:

Financial Statements

Type of Auditor's Report issued: I have audited the accompanying fund type and account group financial statements - regulatory basis - of Keys School District No. I-006, Cherokee County, Oklahoma as listed in the table of contents, as of and for the year ended June 30, 2016. In my opinion letter, my report was adverse on U.S. Generally Accepted Accounting Principles because the school district prepares its financial statements on a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting is prescribed by the laws of the State of Oklahoma. Also my report was qualified with regard to the prescribed basis of accounting because of the omission of the general fixed asset account group.

Internal Control Over Financial Reporting:

Material weaknesses identified?	NO
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?	NO
Reportable conditions identified not considered to be material weaknesses?	NONE REPORTED
Any audit finding disclosed that are required to be Reported in accordance with The Uniform Guidance	NONE REPORTED
Type of Auditor's Report Issued on Compliance for Major Programs:	UNQUALIFIED

Identification of Major Programs:

Title I, Part A (84.010)	\$ 218,094.89
Title VIII Impact Aid (84.041)	172,338.20
Title VII Indian Education (84.060)	98,830.00
Carol M. White Physical (84.215)	415,627.63

The dollar threshold used to distinguish between type A and type B programs was \$750,000.00. 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, 2016**

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, 2015 TO JUNE 30, 2016**

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 2015-2016.

Alan Chapman, C.P.A.

By Alan Chapman
Authorized Agent

Subscribed and sworn to before me this 13th day of October, 2016.

Janis N. Welch
Notary Public

My Commission Expires: _____

My Commission Number: _____

