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

**TAHLEQUAH SCHOOL DISTRICT NO. I-35,
CHEROKEE COUNTY, OKLAHOMA**

JUNE 30, 2012

Audited by

**JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK**

**INDEPENDENT SCHOOL DISTRICT NO. I-35
CHEROKEE COUNTY, OKLAHOMA
JUNE 30, 2012**

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**INDEPENDENT SCHOOL DISTRICT NO. I-35
CHEROKEE COUNTY, OKLAHOMA
JUNE 30, 2012**

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**INDEPENDENT SCHOOL DISTRICT NO. I-35
CHEROKEE COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012**

BOARD OF EDUCATION

President	Shamon Pinson
Vice-President	Luke Foster
Member	David Morrison
Member	Brian Berry
Member	Donna Tinnin

SUPERINTENDENT OF SCHOOLS

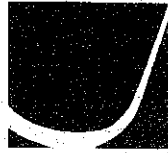
Lisa Presley

MINUTES CLERK

Diane Adamson

SCHOOL DISTRICT TREASURER

Danny Mason



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Tahlequah School District No. I-035
Tahlequah, Oklahoma 74465-0517

I have audited the accompanying regulatory basis financial statements of Tahlequah School District No. I-035, Tahlequah, Oklahoma, as listed in the table of contents as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed by the Oklahoma State Department of Education that demonstrates compliance with the cash basis and budget laws of Oklahoma, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

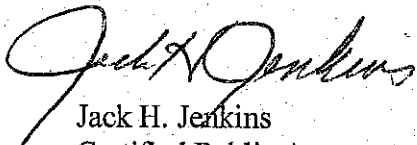
Also, as discussed in Note 1, the regulatory basis financial statements referred to above do not include the general fixed asset account group. The amount that should be recorded in the general fixed assets group is not known. If the general fixed assets account group had been included, the amount of the adjustments to the regulatory basis financial statements is not known.

In my opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to above do not present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of Tahlequah School District No. I-035, Tahlequah, Oklahoma as of June 30, 2012, and the results of its operations for the year then ended.

However, in my opinion, except for the omission of the general fixed assets account group, which results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group, where applicable, of Tahlequah School District No. I-035, Tahlequah, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 5, 2012, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements that collectively comprise Tahlequah School District No. I-035's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the combined financial statements. The combining fund statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Jack H. Jenkins
Certified Public Accountant, P.C.

December 5, 2012

COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2012**

ASSETS	GENERAL	GOVERNMENTAL FUND TYPES		CAPITAL PROJECTS	FIDUCIARY FUND TYPES	ACCOUNT GROUP		TOTALS (Memorandum Only)
		SPECIAL REVENUE	DEBT SERVICE			EXPENDABLE TRUST AND AGENCY FUND	GENERAL LONG-TERM DEBT	
Cash	\$ 11,122,944	2,212,787	1,931,139	389,209	197,789		15,853,868	15,766,896
Investments					236,579		236,579	
Amounts available in debt service							62,789	88,513
Amounts to be provided for retirement of general long-term debt							6,238,403	7,428,406
Total Assets	<u>11,122,944</u>	<u>2,212,787</u>	<u>1,931,139</u>	<u>389,209</u>	<u>434,368</u>	<u>6,301,192</u>	<u>22,391,639</u>	<u>23,283,815</u>
LIABILITIES AND FUND EQUITY								
Liabilities								
Warrants payable	2,585,474	67,368		290,283			2,943,125	3,428,044
Encumbrances	60,269						60,269	506,847
Funds held for school organizations					434,368		434,368	463,016
Unmatured obligations			1,868,350				1,868,350	1,813,205
Long-term debt:								
Bonds payable						4,930,000	4,930,000	5,835,000
Capital leases						1,371,192	1,371,192	1,681,919
Total liabilities	<u>2,645,743</u>	<u>67,368</u>	<u>1,868,350</u>	<u>290,283</u>	<u>434,368</u>	<u>6,301,192</u>	<u>11,607,304</u>	<u>13,728,031</u>
Fund Equity								
Cash fund balances	8,477,201	2,145,419	62,789	98,926			10,784,335	9,555,784
Total Liabilities and Fund Equity	<u>\$ 11,122,944</u>	<u>2,212,787</u>	<u>1,931,139</u>	<u>389,209</u>	<u>434,368</u>	<u>6,301,192</u>	<u>22,391,639</u>	<u>23,283,815</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES			TOTALS	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	(Memorandum Only) 2011
Revenues					
Local sources	\$ 3,642,930	391,779	1,889,579	3,756	5,928,044
Intermediate sources	367,632				367,632
State sources	17,388,518	158,388	17		17,546,923
Federal sources	5,502,255	143,745			5,646,000
Non-revenue receipts	75,638	176,516			252,154
Total revenues	<u>26,976,973</u>	<u>870,428</u>	<u>1,889,596</u>	<u>3,756</u>	<u>31,371,005</u>
Expenditures					
Instruction	14,172,662	199,574		391,757	14,763,993
Support services	8,906,800	242,140		685,968	9,834,908
Operation of non-instructional services	1,808,649	435		1,809,084	1,742,985
Facilities, acquisition and const. services		214,438		779,064	993,502
Other outlays	275,410	30,163		305,573	353,955
Other uses	5,637			5,637	960
Repayments	424			424	
Debt service			1,915,320		1,915,320
Total expenditures	<u>25,169,582</u>	<u>686,750</u>	<u>1,915,320</u>	<u>1,856,789</u>	<u>29,662,649</u>
Revenues over (under) expenditures	1,807,391	183,678	(25,724)	(1,853,033)	1,508,356
Other financing sources (uses)					(58)
Bank fees					
Lapsed appropriations	55,262	40,509		332,568	428,339
Stopped warrants	2,900				2,900
Bond proceeds				685,000	685,000
Total other financing sources (uses)	<u>58,162</u>	<u>40,509</u>		<u>1,017,568</u>	<u>992,416</u>
Revenue and other sources over (under) expenditures and other uses	1,865,553	224,187	(25,724)	(635,465)	1,228,551
Cash fund balance, beginning of year	6,611,648	1,921,232	88,513	934,391	9,555,784
Cash fund balance, end of year	<u>\$ 8,477,201</u>	<u>2,145,419</u>	<u>62,789</u>	<u>98,926</u>	<u>9,555,784</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 REGULATORY BASIS - BUDGETED GENERAL FUND
 JUNE 30, 2012**

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	\$ 3,028,488	3,028,488	3,642,930
Intermediate sources	331,723	331,723	367,632
State sources	17,168,248	17,168,248	17,388,518
Federal sources	4,676,929	5,928,788	5,502,255
Non-revenue receipts			75,638
Total revenues	<u>25,205,388</u>	<u>26,457,247</u>	<u>26,976,973</u>
Expenditures			
Instruction			14,172,662
Support services			8,906,800
Operation of non-instructional services			1,808,649
Other outlays			275,410
Other uses			5,637
Non-categorical	31,817,036	33,068,895	424
Total expenditures	<u>31,817,036</u>	<u>33,068,895</u>	<u>25,169,582</u>
Revenues over (under) expenditures	(6,611,648)	(6,611,648)	1,807,391
Other financing sources (uses)			
Bank fees			
Lapsed appropriations			55,262
Estopped warrants			2,900
Total other financing sources (uses)			<u>58,162</u>
Revenue and other sources over (under) expenditures and other uses	(6,611,648)	(6,611,648)	1,865,553
Cash fund balance, beginning of year	<u>6,611,648</u>	<u>6,611,648</u>	<u>6,611,648</u>
Cash fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>8,477,201</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 REGULATORY BASIS - ALL BUDGETED SPECIAL REVENUE FUNDS
 JUNE 30, 2012**

	SPECIAL REVENUE FUNDS		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	\$ 356,391	356,391	391,779
State Sources			158,388
Federal sources			143,745
Other Sources			176,516
Total revenues	<u>356,391</u>	<u>356,391</u>	<u>870,428</u>
Expenditures			
Instruction			199,574
Support services			242,140
Operation of Non- Instruction Maintenance			435
Facilities acquisitions and construction			214,438
Other Outlays			30,163
Non-categorical	<u>2,277,623</u>	<u>2,277,623</u>	
Total expenditures	<u>2,277,623</u>	<u>2,277,623</u>	<u>686,750</u>
Revenues over (under) expenditures	(1,921,232)	(1,921,232)	183,678
Other financing sources (uses)			
Lapsed appropriations			<u>40,509</u>
Total other financing sources (uses)			<u>40,509</u>
Revenue and other sources over (under) expenditures and other uses	(1,921,232)	(1,921,232)	224,187
Cash fund balance, beginning of year	<u>1,921,232</u>	<u>1,921,232</u>	<u>1,921,232</u>
Cash fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>2,145,419</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 REGULATORY BASIS - DEBT SERVICE FUNDS
 JUNE 30, 2012**

	DEBT SERVICE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	\$ 1,826,807	1,826,807	1,889,579
State sources			17
Total revenues	1,826,807	1,826,807	1,889,596
Expenditures			
Other outlays			
Debt service	1,915,320	1,915,320	1,915,320
Revenues over (under) expenditures	(88,513)	(88,513)	(25,724)
Cash fund balance, beginning of year	88,513	88,513	88,513
Cash fund balance, end of year	\$ -	-	62,789

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

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

The basic financial statements of the Tahlequah Public Schools Independent District No. I-35 (the "District") have been prepared in conformity with another comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes.

The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on state of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

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

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies- contd.**

B. Fund Accounting

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

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental Fund Types

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

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

Special Revenue Fund - The special revenue funds are the District's building, co-op and child nutrition funds.

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies- contd.**

B. Fund Accounting - contd.

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

Child Nutrition Fund - The child nutrition fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the various nutrition programs provided to students. The District did not maintain this fund during the 2011-12 fiscal year.

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

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

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 has no proprietary fund types.

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 a trust agreement, either a nonexpendable trust fund or an expendable trust fund is used depending on whether there is an obligation to maintain trust principal. Agency

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

B. Fund Accounting - contd.

funds 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.

Expendable Trust Funds - Expendable trust funds include the gifts fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The District did not maintain any expendable trust funds during the 2011-12 fiscal year.

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

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

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

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

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

Account Group

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 fixed assets.

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 other liabilities (judgments and lease purchases), which are to be paid from funds provided in future years.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

B. *Fund Accounting* - contd.

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

Memorandum Only - Total Column

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

C. *Basis of Accounting and Presentation*

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

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

- 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.
- 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 requires revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies- contd.**

C. Basis of Accounting and Presentation – contd.

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

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.

The District may upon approval by a majority of the electors of the District voting on the question make the ad valorem levy for emergency levy and local support levy permanent.

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

E. Assets, Liabilities and Fund Equity

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

Investments - Investments consist of direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, bank and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the district. All investments are recorded at cost, which approximates market value.

Inventories - The value of consumable inventories at June 30, 2012 is not material to the combined financial statements-regulatory basis.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies- contd.

E. Assets, Liabilities and Fund Equity – contd.

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

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

Encumbrances - Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting.

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

F. Revenue and Expenditures

Local Revenues - Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. The District is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the District. These property taxes are distributed to the District's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax 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 owned. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

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

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

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.

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

F. Revenue and Expenditures- contd.

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 categorical educational program revenues be accounted for in the general fund.

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

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

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

The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains a building fund and the non-special education portion of PL874 Impact Aid are apportioned there.

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

Instruction Expenditures - Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence.

Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.), which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

F. Revenue and Expenditures - contd.

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

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

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

Other Outlays/Uses Expenditures - A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest) when applicable. Other uses include scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditure for self-funded employee benefit programs administered either by the District or a third party administrator.

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

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. During 2011-12, there was an interfund transfer of \$290,041 from the Bond Fund 33 to Bond Fund 31.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

2. Deposits and Investments

Custodial Credit Risk

At June 30, 2012, the District held deposits of approximately \$16,090,447 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

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

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

2. Deposits and Investments – cont'd

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Market Value	Cost
Investments			
Money Market		\$ 0	\$ 0
Municipal tax-supported money judgments		0	0
Certificate of Deposit		<u>236,579</u>	<u>236,579</u>
Total investments		<u>\$ 236,579</u>	<u>\$236,579</u>

Concentration of Investment Credit Risk

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 0% in Money Market funds, 0% in Municipal tax-supported money judgments and 100% in CDs (\$236,579).

3. General Long-term Debt

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

General long-term debt of the District consists of bonds payable and three (3) capital leases. Debt service requirements for bonds are payable solely from the fund balance and the future revenues of the debt service fund.

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

3. General Long-term Debt – contd.

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

	Bonds Payable	Capital Leases	Totals
Balance, July 1, 2011	\$ 5,835,000	1,681,919	7,516,919
Additions	685,000		685,000
Retirements	1,590,000	310,727	1,900,727
Balance, June 30, 2012	<u>\$ 4,930,000</u>	<u>1,371,192</u>	<u>6,301,192</u>

A brief description of the outstanding long-term debt at June 30, 2012 is set forth below:

	<u>Amount outstanding</u>
<u>General Obligation Bonds</u>	
Combined Purpose Bonds, Series 2009, original issue \$3,750,000, interest rate of 2.55-4.00%, due in an initial installment of \$90,000 on 7-01-11, annual installments thereafter of \$1,220,000, final payment due 7-01-14;	\$ 3,660,000
Combined Purpose Bonds, Series 2010, original issue \$585,000, interest rate of 1.40%, due in one installment of \$585,000 due 7-01-14;	585,000
Building Bonds, Series 2011, original issue \$685,000, interest rate of 1.50%, due in one installment of \$685,000 due 7-01-13;	685,000
<u>Capital Leases</u>	
Lease agreement for capital equipment/improvements, totaling \$622,793, dated 5-23-07, interest rate of 4.83%, annual payments beginning 7-25-08 totaling \$106,976, final payment 7-25-14;	\$ 292,243

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

3. General Long-term Debt – contd.

	<u>Amount outstanding</u>
<u>Capital Leases – contd.</u>	
Lease agreement for equipment, totaling \$307,266, dated 10-12-09, interest rate of 4.40%, monthly payments beginning 11-20-09 totaling \$5,720, final payment 10-20-14;	\$ 151,949
Lease agreement for capital equipment/improvements, totaling \$1,000,000, dated 8-24-10, interest rate of 6.87%, annual payments beginning 2-24-11 of various amounts, final payment 8-24-20;	<u>927,000</u>
Totals	<u>\$ 6,301,192</u>

The annual debt service requirements for the retirement 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	1,805,000	104,125	1,909,125
2014	1,905,000	56,330	1,961,330
2015	1,220,000	15,555	1,235,555
Total	<u>\$ 4,930,000</u>	<u>176,010</u>	<u>5,106,010</u>

There was \$270,175 interest paid on long-term debt incurred during the current year.

The annual debt service requirements for capital lease principal, and interest are as follows:

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 234,074	80,548	314,622
2014	246,400	67,691	314,091
2015	213,718	54,705	268,423
2016	95,000	43,247	138,247
2017	102,000	36,480	138,480
Thereafter	480,000	68,700	548,700
Total	<u>\$ 1,371,192</u>	<u>351,371</u>	<u>1,722,563</u>

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

4. Employee Retirement System

Plan Description

The District participates in the state-administered Oklahoma Teachers' Retirement Plan, a cost-sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the board of trustees of the Oklahoma Teachers' Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, OK 73152 or by calling (405) 521-2387.

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Beginning, July 1, 2010, the District and State were required to contribute 14.5% of applicable compensation. Contributions received by the System are from a percentage of its revenues from sales taxes, use taxes, corporate income taxes and individual income taxes. The District contributed 9.5% beginning January 1, 2010 and the State of Oklahoma contributed the remaining 5.0% during the year. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

4. Employee Retirement System – contd.

Annual Pension Cost

The District's portion of the total contributions for 2012, 2011 and 2010 were \$1,566,253, \$1,487,157, and \$1,556,252 respectively.

5. Contingencies

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.

6. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for 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 fiscal years.

7. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**OTHER SUPPLEMENTARY INFORMATION – REGULATORY
BASIS - COMBINING FINANCIAL STATEMENTS**

INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

<u>ASSETS</u>	<u>BUILDING FUND</u>	<u>COOP FUND</u>	<u>TOTALS (Memorandum Only)</u>	
			<u>2012</u>	<u>2011</u>
Cash	\$ 2,182,950	29,837	2,212,787	2,026,293
 <u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Warrants payable	37,531	29,837	67,368	50,237
Encumbrances			-	54,824
Total liabilities	<u>37,531</u>	<u>29,837</u>	<u>67,368</u>	<u>105,061</u>
Fund Equity				
Cash fund balances	<u>2,145,419</u>	-	<u>2,145,419</u>	<u>1,921,232</u>
Total Liabilities and Fund Equity	<u>\$ 2,182,950</u>	<u>29,837</u>	<u>2,212,787</u>	<u>2,026,293</u>

INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN CASH FUND BALANCES - REGULATORY BASIS - ALL SPECIAL REVENUE FUNDS
JUNE 30, 2012

	BUILDING FUND	COOP FUND	TOTALS (Memorandum Only)	
			2012	2011
Revenues				
Local sources	\$ 391,779		391,779	600,462
State sources	3	158,385	158,388	178,012
Federal sources	143,745		143,745	209,630
Non-revenue receipts	33,302	143,214	176,516	
Total revenues	<u>568,829</u>	<u>301,599</u>	<u>870,428</u>	<u>988,104</u>
Expenditures				
Instruction		199,574	199,574	188,592
Support services	140,115	102,025	242,140	307,148
Operation of non-instructional services	435		435	
Facilities, acquisition and const. services	214,438		214,438	89,620
Other Outlays	30,163		30,163	
Total expenditures	<u>385,151</u>	<u>301,599</u>	<u>686,750</u>	<u>585,360</u>
Revenues over (under) expenditures	183,678	-	183,678	402,744
Other financing sources (uses)				
Lapsed appropriations	<u>40,509</u>		<u>40,509</u>	<u>54,715</u>
Revenue and other sources over (under) expenditures and other uses	224,187	-	224,187	457,459
Cash fund balance, beginning of year	<u>1,921,232</u>	-	<u>1,921,232</u>	<u>1,463,773</u>
Cash fund balance, end of year	<u>\$ 2,145,419</u>	-	<u>2,145,419</u>	<u>1,921,232</u>

INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
- REGULATORY BASIS - ALL BUDGETED SPECIAL REVENUE FUNDS
JUNE 30, 2012

	BUILDING FUND			CO-OP FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues						
Local sources	\$ 356,391	356,391	391,779		158,385	158,385
State sources			3			
Federal sources			143,745		143,214	143,214
Non-revenue receipts			33,302			
Total revenues	<u>356,391</u>	<u>356,391</u>	<u>568,829</u>		<u>301,599</u>	<u>301,599</u>
Expenditures						
Instruction			140,115			199,574
Support services			435			102,025
Operation of non-instructional services			214,438			
Facilities, acquisition and const. services			30,163			
Other Outlays					301,599	
Non-categorical	2,277,623	2,277,623			301,599	
Total expenditures	<u>2,277,623</u>	<u>2,277,623</u>	<u>385,151</u>		<u>301,599</u>	<u>301,599</u>
Revenues over (under) expenditures	(1,921,232)	(1,921,232)	183,678			
Other financing sources (uses)						
Lapsed appropriations			40,509			
Revenue and other sources over (under) expenditures and other uses	(1,921,232)	(1,921,232)	224,187			
Cash fund balance, beginning of year	1,921,232	1,921,232	1,921,232			
Cash fund balance, end of year	\$ -	-	2,145,419			

INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL CAPITAL PROJECTS FUNDS
JUNE 30, 2012

	31	32	34	TOTALS
	BUILDING	BUILDING	BUILDING	(Memorandum Only)
	BOND FUND	BOND FUND	BOND FUND	2012
	2011	2011	2011	2011
ASSETS				
Cash	\$ 378,215	685	10,309	389,209
				1,273,755

LIABILITIES AND FUND EQUITY

Liabilities				
Warrants payable	290,283			290,283
Encumbrances				6,796
Total liabilities	290,283			332,568
Fund equity				
Cash fund balances	87,932	685	10,309	98,926
Total Liabilities and Fund Equity	\$ 87,932	685	10,309	98,926
				1,266,959

INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN CASH FUND BALANCES - REGULATORY BASIS - ALL CAPITAL PROJECTS FUNDS
JUNE 30, 2012

	31 BUILDING BOND FUND	32 BUILDING BOND FUND	33 TRANS BOND FUND	34 BUILDING BOND FUND	TOTALS (Memorandum Only) 2012	2011
Revenues						
Local sources	\$ 3,071	685			3,756	5,791
Expenditures						
Instruction	391,757				391,757	105,260
Support Services		11,277	385,000	289,691	685,968	329,957
Facilities, acquisition & const. services	779,064				779,064	953,344
Total expenditures	<u>1,170,821</u>	<u>11,277</u>	<u>385,000</u>	<u>289,691</u>	<u>1,856,789</u>	<u>1,388,561</u>
Revenues over (under) expenditures	(1,167,750)	(10,592)	(385,000)	(289,691)	(1,853,033)	(1,382,770)
Other financing sources (uses)						
Operating transfers in (out)	290,041		(290,041)			-
Lapsed appropriations	332,568				332,568	346,522
Bond sales proceeds			385,000	300,000	685,000	585,000
Total other financing sources (uses)	<u>622,609</u>	<u>-</u>	<u>94,959</u>	<u>300,000</u>	<u>1,017,568</u>	<u>931,522</u>
Revenue and other sources over (under) expenditures and other uses	(545,141)	(10,592)	(290,041)	10,309	(835,465)	(451,248)
Cash fund balance, beginning of year	633,073	11,277	290,041	-	934,391	1,385,639
Cash fund balance, end of year	<u>\$ 87,932</u>	<u>685</u>	<u>-</u>	<u>10,309</u>	<u>98,926</u>	<u>934,391</u>

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
 COMBINING STATEMENT OF ASSETS, LIABILITIES AND
 FUND EQUITY - REGULATORY BASIS - ALL FIDUCIARY FUND TYPES
 JUNE 30, 2012**

	AGENCY FUNDS	
	ACTIVITY FUNDS	
<u>ASSETS</u>	2012	2011
Cash	\$ 197,789	463,016
Investments	236,579	
Total assets	434,368	463,016

LIABILITIES AND FUND EQUITY

Liabilities		
Funds held for school organizations	\$ 434,368	463,016

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Net Transfers</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
801 Football	\$ 3,804	29,321		30,112	3,013
802 Boys Basketball	(437)	7,014	564	5,182	1,959
803 Girls Basketball	269	7,014	564	5,165	2,682
805 Boys Baseball	265	3,539		3,557	247
806 Girls Softball	274	4,394		4,418	250
807 Wrestling	555	3,225		3,778	2
808 Boys Tennis	390	1,250		392	1,248
809 Girls Tennis	1,643	5,362		4,042	2,963
811 Boys Track	5,304	21,249		13,691	12,862
812 Girls Track	1,143	2,642		1,045	2,740
813 Golf	726	5,821		5,496	1,051
814 Cross Country	2,405	2,531		1,339	3,597
815 Soccer	1,739	7,953		7,639	2,053
816 Volleyball	287	4,279		3,245	1,321
821 Student Council	2,625	11,216		11,698	2,143
822 Library	11,582	49,011		51,241	9,352
823 PTA	48,214	78,984	(1,111)	88,302	37,785
824 Pictures	9,711	13,040		15,071	7,680
825 Courtesy/Flowers	864	2,015		2,293	586
826 Miscellaneous	47,472	113,045		102,998	57,519
827 Gifted & Talented	9,343	15,252		16,138	8,457
828 General Fund Refunds	11,619	21,836		33,330	125
829 Projects	29,229	63,104		69,976	22,357
831 S.A.D.D. -DFY	580	580		619	541
832 The Clothing Store	1,733			43	1,690
833 F.C.A.	602	220		570	252
834 Pom Squad	306	18,973		16,464	2,815
835 Yearbook	48,575	39,626		47,438	40,763
837 French Club	662	509		370	801
838 Honor Society	3,724	1,598		2,717	2,605
839 F.H.A.-FCCLA	3,088	14,005		13,848	3,245
841 Cheerleaders	8,250	46,745	245	41,983	13,257
842 Vocal Music	4,268	47,555		46,756	5,067
843 Band	17,773	160,257		158,601	19,429
844 Indian Heritage	460			-	460
845 Basketball Tournament	1,109			-	1,109
846 Youth Volleyball	2,166	3,662		2,295	3,533
847 Success Grant Activity	\$ 4,664	300		540	4,424

INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Balance</u>		<u>Net</u>		<u>Balance</u>
<u>Activities</u>	<u>July 1, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>June 30, 2012</u>
848 Junior Class	\$ 3,312	8,110		6,848	4,574
849 Senior Class	-	286		229	57
851 F.B.L.A.-BPA	3,845	5,102		6,806	2,141
854 F.F.A.	798	14,925		14,835	888
855 Science Club	13,852	16,400		26,807	3,445
856 Spanish Club	1,243			-	1,243
857 Gold Card Program	1,318			-	1,318
858 Athletic Department Fundraising	90	4,290		3,744	636
859 The Technology Account	2,116	1,138		2,007	1,247
861 Science Lab	-	3,147		1,992	1,155
862 Video Production	413			413	-
863 THS Basketball Rebound (Boys)	(357)	14,893	433	11,636	3,333
864 Special Olympics	14,946	12,580		9,422	18,104
865 Competitive Cheerleading	2			-	2
867 T.H.S. Drama Club	4,023	8,833		9,011	3,845
869 Journalism Account	389			179	210
872 Hepatitis "B" Shot Deposits	100			-	100
873 Transportation	872	380		496	756
874 JROTC	4,528	8,574	500	7,352	6,250
876 OPAT	191			-	191
877 Maintenance Department	407	190		214	383
878 Student Store	4,011		(500)	2,998	513
879 Parking Permits Account	3,516	20,605		9,361	14,760
881 Accufax	1,161	4,511		4,815	857
882 Doyle Green Scholarship Fund	1,039	900		1,039	900
883 The Baseball Booster Club	11,894	19,129	23	27,236	3,810
884 Tiger Cage Camp	1,311	1,580	23	1,350	1,564
885 Lady Tiger Cage Camp	556	232		-	788
886 THS Basketball Rebound (Girls)	7,378	27,749	388	32,025	3,490
887 Tahlequah Kickoff Club	19,305	20,315		31,746	7,874
888 Tiger Softball Camp	11,813	22,338		27,712	6,439
889 THS Softball Booster Club	4,175	8,445		10,330	2,290
891 Tahlequah Band Booster	12,095	40,004		40,415	11,684
893 Tiger Takedown Club	3,182	14,183	29	14,081	3,313
895 Back Pack Food Program	5,021	3,464		2,900	5,585
896 Tiger Soccer Booster Club	2,107	575		2,474	208
898 Professional Development Account	713			228	485
902 THS Golf Booster Club	\$ 117	9,980		7,393	2,704

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

<u>Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Net Transfers</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
903 Tahlequah Tennis Booster Club	\$ 3,865	11,439		13,271	2,033
904 Academic Team	3,100	1,840		1,880	3,060
905 GED Testing Program	7,528	5,849		4,553	8,824
906 THS Cross Country Boosters	658	2,539		2,383	814
909 Girls Soccer Booster Club	1,670	5,990		4,779	2,881
911 Cherokee Language	10			-	10
915 THS Volleyball Camp	3,871	5,543		3,604	5,810
919 Soft Serve	916			-	916
922 Maurice Box Memorial	500	500		1,000	-
923 Para Pro Testing	-	225		225	-
925 Art Class	1,651	4,058		3,801	1,908
927 HOSA	6	1,000		-	1,006
931 Indian Education Activity	4,506	862		1,058	4,310
932 Drama Club Travel Account	51			-	51
933 THS Photography Club	68			-	68
935 AP Stat	1,074	1,095	1,111	1,084	2,196
938 English Club	311	243		194	360
941 Cherokee Elementary	548	1,174		1,479	243
942 THS Freshman Class	116			-	116
943 THS Algebra Class	637			-	637
Audit Adjustment	3,462		(2,269)	1,193	-
TOTAL ASSETS - AGENCY FUNDS	<u>463,016</u>	<u>1,142,342</u>	<u>-</u>	<u>1,170,990</u>	<u>434,368</u>
LIABILITIES AND FUND EQUITY					
Funds held for school organizations	<u>\$ 463,016</u>	<u>1,142,342</u>	<u>-</u>	<u>1,170,990</u>	<u>434,368</u>

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012
<u>U.S. Department of Education</u>							
<u>Direct Programs:</u>							
Title VIII Impact Aid - 2012	84.041	S041B124221	\$ 150,568	148,156	150,568	38,997	111,571
Title VIII Impact Aid - 2011	84.041	S041B114221				50,097	98,059
Title VIII Impact Aid - 2010	84.041	S041B104221	19,326		19,326	19,326	
Title VIII Impact Aid - 2009	84.041	S041B094221	24,242		24,242	24,242	
Title VIII Impact Aid - 2008	84.041	S041B084221		32,856		32,856	
Title VIII Impact Aid - 2007	84.041	S041B074221		28,618		28,618	
* High School Counseling Grant	84.215E	Q215E090012	325,156	(39,412)	198,772	337,472	(138,700)
High School Counseling Grant 2010-11 - Note 1	84.215E	Q215E090012			39,412		
Postsecondary Education Preparation Project	84.299A	S299A080043	300,000		224,765	300,000	(75,235)
Postsecondary Education Preparation Project 2010-11 - carryover	84.299A	S299A080043			28,571	28,571	
Postsecondary Education Preparation Project 2010-11 - Note 1	84.299A	S299A080043		(33,712)	33,712		
Project Language Improvement 2010-11 - Note 1	84.365C	T365C060001		(41,477)	41,477		
Safe & Drug-Free Schools - Mentoring Program 2010-11 - Note 1	84.184B	Q184D080007	369,670	(5,823)	5,823	368,931	(85,229)
* Title VII-Part A, Indian Education	84.060	S060A110854		(76,290)	283,702		
Title VII-Part A, Indian Education 2010-11 - Note 1	84.060	S060A100854			76,290		
Gear Up Project	84.184D	P334A050046	39,241	(50,453)	39,241	39,241	
Gear Up Project 2010-11 - Note 1	84.184D	P334A050046			50,453		
Subtotal			1,228,203	(37,537)	1,216,354	1,268,351	(89,534)
<u>Passed Through State Department of Education:</u>							
* Title I-Part A, Improving Basic Programs	84.010		1,339,122	(321,742)	860,413	1,286,853	(426,440)
Title I-Part A, Improving Basic Programs 2010-11 - Note 1	84.010				321,742		
* Title I School Support	84.010		47,193	(143,322)	16,899	38,390	(21,491)
ARRA Title I-Part A 2010-11 - Note 1	84.389		20,146	(5,874)	143,322	19,877	(3,950)
Title I-Part A Neglected	84.010		95,536	(40,508)	5,874	81,139	(35,096)
Title I-Part A Neglected 2010-11 - Note 1	84.010				46,043		
* Title I-Part C, Migrant Incentive	84.011		221,523	(66,493)	40,508	203,306	(97,072)
Title I-Part C, Migrant Incentive 2010-11 - Note 1	84.011				106,234		
Title II-Part A, Teacher & Principal Training	84.367		3,003		66,493		
Title II-Part A 2010-11 - Note 1	84.367				3,003		
Title II-Part D, Enhancing Education Thru Tech.	84.318						

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor's/Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012
Title II-Part D, Enhancing Education Thru Tech. 2010-11 - Note 1	84.318			(4,647)	4,647		
Title III-Part A Immigrant Subgrant	84.365		\$ 2,087			2,004	(2,004)
Title III-Part A English Language Acquisition	84.365		26,606	(8,602)	13,796	23,673	(9,877)
Title III-Part A English Language Acquisition 2010-11 - Note 1	84.365		732,707	(169,482)	493,118	722,910	(229,792)
* Special Education, Flowthrough, P.L. 105-17	84.027				169,482		
* Special Education, Flowthrough 2010-11 - Note 1	84.027				9,774	14,575	(4,801)
* Special Education, Preschool, Ages 3-5, P.L. 105-17	84.173		14,754	(3,635)	3,635		
* Special Education, Preschool, Ages 3-5 2010-11 - Note 1	84.173					4,321	(4,321)
* IDEA-Systems of Care	84.173		5,000	(4,680)	4,680		
IDEA-Systems of Care 2010-11 - Note 1	84.173				56,613	120,000	(63,387)
Title IV-Part B, 21st Century	84.287		120,000	(60,313)	60,313		
Title IV-Part B, 21st Century 2010-11 - Note 1	84.287				37,464	50,762	(13,298)
Title VI-Small, Rural School Ach. Program	84.358		71,436	(12,950)	12,950		
Title VI-Small, Rural School Ach. Program 2010-11 - Note 1	84.358				41,345	58,622	(17,277)
Adult Basic Education	84.002		58,622	(23,670)	23,670		
Adult Basic Education 2010-11 - Note 1	84.002				4,311	6,416	(2,105)
Adult Basic Education - Corrections/Institutions	84.002		6,416	(1,557)	1,557		
Adult Basic Education - Corrections/Inst. 2010-11 - Note 1	84.002			(259,898)	259,898		
Education Jobs Fund	84.410			(1,127,373)	2,832,313	2,635,851	(930,911)
Subtotal			2,764,151			53,140	(48,109)
Passed Through State Department of Career and Technology Education:					5,031		
Carl Perkins Grant	84.048		53,140	(11,691)	11,691	53,140	(48,109)
Carl Perkins Grant 2010-11 - Note 1	84.048				16,722	53,140	(48,109)
Subtotal			\$ 53,140			\$ 53,140	
U.S. Department of Agriculture:							
Passed Through State Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
National School Lunch Program	10.555				84,125	84,125	
Non-Cash Assistance Subtotal					84,125	84,125	

**INDEPENDENT SCHOOL DISTRICT NO. 1-35, CHEROKEE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass Through Grantor/Program Title	Federal Grantor's/		Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012
	Federal CFDA Number	Pass-through Grantor's Number					
Cash Assistance:							
National School Lunch Program	10.555			(9,815)	1,050,625	1,054,608	(3,983)
National School Lunch Program 2010-11 - Note 1	10.555				9,815		
School Breakfast Program	10.553			(3,743)	326,629	328,462	(1,833)
School Breakfast Program 2010-11 - Note 1	10.553				3,743		
<i>Cash Assistance Subtotal</i>				<u>(13,558)</u>	<u>1,390,812</u>	<u>1,383,070</u>	<u>(5,816)</u>
<i>Total For Program (Cluster)</i>				<u>(13,558)</u>	<u>1,474,937</u>	<u>1,457,195</u>	<u>(5,816)</u>
Other Federal Assistance:							
Johnson O'Malley	15.130		\$ 74,750	(23,277)	57,469	74,749	(17,280)
Johnson O'Malley 2010-11 - Note 1	15.130			73,936	23,277		
Cherokee Nation CAN 2010-11 carryover	93.243				27,500	96,676	4,760
ROTC	12.000				63,818	53,470	10,348
Flood Control	12.112				8,720	8,720	
Medicaid	93.778				1,343	1,343	
OJT	84.126				7,672	7,672	
<i>Subtotal</i>			<u>156,303</u>	<u>50,659</u>	<u>189,799</u>	<u>242,630</u>	<u>(2,172)</u>
Total Federal Assistance			<u>\$ 4,201,797</u>	<u>(1,139,500)</u>	<u>5,730,125</u>	<u>5,667,167</u>	<u>(1,076,542)</u>

* Major federal programs

Note 1 - These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

Note 2 - Commodities received by the District in the amount of \$84,125 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 3 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

**INDEPENDENT SCHOOL DISTRICT I-35, CHEROKEE COUNTY
 SCHEDULE OF SURETY BONDS
 FOR THE YEAR ENDED JUNE 30, 2012**

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
RLI	Superintendent	LSM0140103	\$100,000	7/1/11-7/1/12
	Minutes Clerk	LSM0140107	\$100,000	7/1/11-7/1/12
	Personnel Manager	LSM0140107	\$100,000	7/1/11-7/1/12
	Business Manager	LSM0223748	\$100,000	7/1/11-7/1/12
CNA Surety	Treasurer	60118228222	\$100,000	6/29/12-6/29/13
	Deputy Treasurer	60169529648	\$100,000	7/1/11-7/1/12
Ohio Casualty	Activity Fund	601022403	\$100,000	3/11/12-7/1/12



Jack H. Jenkins, CPA *A Professional Corporation*

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS – REGULATORY BASIS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Education
Tahlequah School District No. I-035
Tahlequah, Oklahoma 74465-0517

I have audited the regulatory basis financial statements of Tahlequah School District No. I-035, Tahlequah, Oklahoma, as of and for the year ended June 30, 2012, and have issued my report thereon, dated December 5, 2012. The audit opinion was adverse to generally accepted accounting principles because the District prepares its financial statements on a basis of accounting prescribed by the Oklahoma State Department of Education that complies with the cash and budget laws of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles and qualified as to the preparation of financial statements prepared on that basis. I conducted my audit in accordance with generally accepted auditing standards 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 the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, 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.

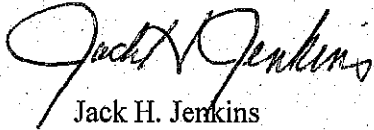
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies,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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, 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*.

This report is intended solely for the information of the school board, management, Oklahoma State Auditor and Inspector's Office and the Oklahoma State Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.



Jack H. Jenkins
Certified Public Accountant, P.C.

December 5, 2012



Jack H. Jenkins, CPA *A Professional Corporation*

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

The Honorable Board of Education
Tahlequah School District No. I-035
Tahlequah, Oklahoma 74465-0517

Compliance

I have audited the compliance of Tahlequah School District No. I-035, Tahlequah, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. My responsibility is to express an opinion on the District's compliance based on my audit.

I 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 the District'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 the District's compliance with those requirements.

In my opinion, Tahlequah School District No. I-035, Tahlequah, Oklahoma 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. The results of my auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Tahlequah School District No. I-035, Tahlequah, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with requirements of laws,

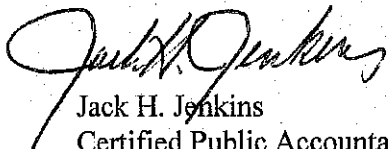
regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information of the board of education and management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be, and should not be, used by anyone other than these specified parties.


Jack H. Jenkins
Certified Public Accountant, P.C.

December 5, 2012

INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2011 TO JUNE 30, 2012

Summary of Auditor's Results

1. The auditor's report expresses an adverse opinion on the combined financial statements in conformity with generally accepted accounting principles and a qualified opinion for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. No instances of noncompliance material to the financial statements of the District were reported during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133"
5. An unqualified opinion report was issued on the compliance of major federal award programs.
6. The audit disclosed no audit findings and questioned costs, which are required to be reported under OMB Circular A-133 § 510(a).
7. The programs tested as major federal programs were: Title I programs and Special Education programs which were each clustered in the determination and the Indian Education and Counseling Grant programs.
8. The dollar threshold used to determine between Type A and Type B programs was \$300,000.
9. The District did not qualify to be a low-risk auditee.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
DISPOSITION OF PRIOR YEAR'S SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

Activity Fund

The discrepancy involving the Activity Fund not balancing to cash was resolved in the 2011-12 fiscal year.

**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012**

State of Oklahoma)
County of Tulsa)

The undersigned auditing firm representative 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 Tahlequah School District for the audit year 2011-12.

Jack H. Jenkins, CPA, P.C.
AUDITING FIRM

BY *Jack H. Jenkins*
AUTHORIZED AGENT

Subscribed and sworn to before me on this
6 day of, Dec, 2012

Karla Jenkins
NOTARY PUBLIC



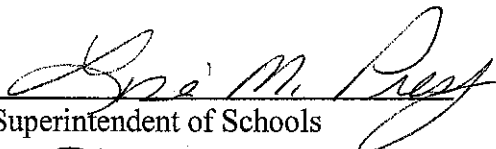
**INDEPENDENT SCHOOL DISTRICT NO. I-35, CHEROKEE COUNTY
AUDIT ACKNOWLEDGEMENT
JULY 1, 2011 TO JUNE 30, 2012**

The annual independent audit for Tahlequah School District was presented to the Board of Education in an Open Board Meeting as indicated below, by Jack H. Jenkins, CPA, P.C.

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

A copy of the audit, including this acknowledgement form, will be sent to the Oklahoma State Department of Education within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

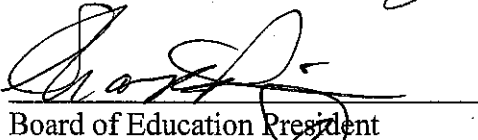
“The local board of education shall forward a copy of the audit report to the State Board of Education within thirty (30) days after receipt of said audit.”



Superintendent of Schools

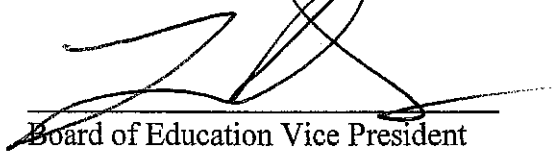
12-10-12

Date of Board Meeting



Board of Education President

Board of Education Clerk



Board of Education Vice President

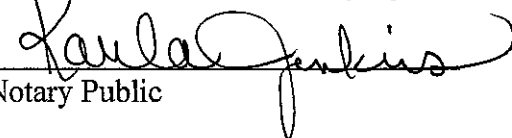
Bir R By

Board of Education Member



Board of Education Member

Subscribed and sworn to before me on this 10 day of Dec, 2012
My commission expires on 20 day of Nov, 20 13



Notary Public

Affix Notary Seal

