

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

**CHOCTAW NATION INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002,  
BRYAN COUNTY, OKLAHOMA**

**JUNE 30, 2013**

Audited by

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

**BROKEN ARROW, OK**

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2013

**BOARD OF EDUCATION**

<b>President</b>	Jarvis Dobbs
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**SUPERINTENDENT**

Ken Keeling

**DISTRICT TREASURER**

Jane Rowland

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
JUNE 30, 2013

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# SANDERS, BLEDSOE & HEWETT

## CERTIFIED PUBLIC ACCOUNTANTS, LLP

### INDEPENDENT AUDITOR'S REPORT

April 4, 2014

The Honorable Board of Education  
Choctaw Nation Interlocal Cooperative School District Number K-002  
Durant, Bryan County, Oklahoma

#### **Report on the Financial Statements**

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Choctaw Nation Interlocal Cooperative School District Number K-002 Durant, Bryan County, Oklahoma (the District), as of and for the year ended June 30, 2013, as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Oklahoma State Department of Education. 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**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As discussed in Note 1, the financial statements are prepared by the District, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determined, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, 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 the District as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

The financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

### **Qualified Opinion on Regulatory Basis of Accounting**

In our 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 balance arising from regulatory basis transactions of each fund type and account group of the District, as of June 30, 2013, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining statements – regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined statements – regulatory basis and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and to other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accounts, LLP



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

April 4, 2014

The Honorable Board of Education  
Choctaw Nation Interlocal Cooperative School District Number K-002  
Durant, Bryan County, Oklahoma

We 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 the Choctaw Nation Interlocal Cooperative School District Number K-002, Durant, Bryan County, Oklahoma (District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated April 4, 2014, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States 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, our 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 our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accounts, LLP

CHOCTAW NATION INTERLOCAL COOPERATIVE  
SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2013

There were no prior year significant deficiencies.



CHOCTAW NATION INTERLOCAL COOPERATIVE  
SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2013

**Section 1** - Summary of Auditor's Results:

1. A qualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.
2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

NONE

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2013

	<u>SPECIAL REVENUE FUND</u>
<u>ASSETS</u>	
Cash	<u>\$ 442,560</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Warrants payable	\$ 286,151
Fund Equity:	
Cash fund balance	<u>156,409</u>
Total Liabilities and Fund Equity	<u>\$ 442,560</u>

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN  
 IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>SPECIAL REVENUE FUND</u>
Revenues Collected:	
Local sources	\$ 2,784,178
State sources	351,114
Interest earnings	366
Non-revenue receipts	1,223
Total revenues collected	<u>3,136,881</u>
Expenditures:	
Instruction	2,663,139
Support services	562,894
Operation of non-instruction services	62
Bank fees and charges	350
Total expenditures	<u>3,226,445</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(89,564)
Adjustments to prior year encumbrances	<u>1,288</u>
Excess of revenues collected over (under) expenditures	(88,276)
Cash fund balances, beginning of year	<u>244,685</u>
Cash fund balances, end of year	<u><u>\$ 156,409</u></u>

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2013

	SPECIAL REVENUE (CO-OP) FUND			Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues Collected:				
Local sources	\$ 3,000,000	3,000,000	2,784,178	(215,822)
State sources	454,437	454,437	351,114	(103,323)
Interest			366	366
Non-revenue receipts			1,223	1,223
Total revenues collected	<u>3,454,437</u>	<u>3,454,437</u>	<u>3,136,881</u>	<u>(317,556)</u>
Expenditures:				
Instruction	3,161,665	3,161,665	2,663,139	498,526
Support services	537,395	537,395	562,894	(25,499)
Operation on non-instruction services	62	62	62	0
Bank fees and charges			350	(350)
Total expenditures	<u>3,699,122</u>	<u>3,699,122</u>	<u>3,226,445</u>	<u>472,677</u>
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(244,685)	(244,685)	(89,564)	155,121
Adjustments to prior year encumbrances	<u>0</u>	<u>0</u>	<u>1,288</u>	<u>1,288</u>
Excess of revenue collected over (under) expenditures	(244,685)	(244,685)	(88,276)	156,409
Cash fund balance, beginning of year	<u>244,685</u>	<u>244,685</u>	<u>244,685</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>156,409</u>	<u>156,409</u>

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Interlocal Cooperative School District No. 7-K002 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is comprised of school districts who have entered into an interlocal cooperative agreement for the purpose of performing services, duties, function, activities, obligations of responsibilities as determined by the boards of education for the benefit of the students. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and the participating school districts 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.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

**B. Fund Accounting**

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

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

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

**Governmental Fund Types**

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

General Fund – As of July 1, 2009, the Oklahoma State Department of Education required the Choctaw Nation Interlocal Coop to account for its transactions in a co-op fund (Fund 12, per O.C.A.S. coding).

Special Revenue Fund – The co-op fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include interest income, member payments, state grants and federal grants. Expenditures include all costs associated with the daily operations of the schools. The co-op fund includes federal and state restricted monies that must be expended for specific programs.

**C. Basis of Accounting**

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

C. Basis of Accounting - cont'd

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

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

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

The co-op fund records purchases of supplies as expenditures rather than as assets to be expensed when used.

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

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

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

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

**D. Budgets and Budgetary Accounting**

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

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

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year

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

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

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

Inventories – The value of consumable inventories at June 30, 2013, is not material to the combined financial statements.



INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

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

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

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

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

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.

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

F. Revenue and Expenditures

Local Revenues District collects revenue from other Districts participating in the co-op. Other local sources of revenues include interest, fees, district contracts, tuition, and reimbursements.

Intermediate Revenues - Revenues from intermediate sources are the amounts of money from funds collected by an intermediate administrative unit, or a political subdivision between the District and the state, and distributed to Districts in amounts that differ in proportion to those which are collected within such systems. The District receives no revenues for this source.

State Revenues – Revenues from state sources for current operations are primarily state grants and flexible benefits.

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

F. Revenue and Expenditures – cont'd

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 co-op fund.

The aforementioned state revenues are apportioned to the District's co-op fund.

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state. The District received no federal funding in the current fiscal year.

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

The District received no federal revenues during the current fiscal year.

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

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

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

F. Revenue and Expenditures – cont'd

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

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

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

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

**2. CASH AND INVESTMENTS**

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2013, was \$442,560. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**2. CASH AND INVESTMENTS – cont'd**

amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2013, the District did not maintain any investments.

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

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

**3. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

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

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

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

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. The District is required to contribute 10.5% of applicable compensation reduced by revenues the System received from the natural gas tax. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2012-13 fiscal year the District contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Ten year historical trend information is presented in the Teachers' Retirement System of Oklahoma Annual Report for the year ended June 30, 2013. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

Annual Pension Cost

The District's total contributions for 2013, 2012 and 2011 were \$250,346, \$448,663, and \$400,371.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2013

**4. RISK MANAGEMENT**

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

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

**5. LITIGATION**

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District.

**6. SUBSEQUENT EVENTS**

Subsequent Events

Management has evaluated subsequent events through April 4, 2014, 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.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2013

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
RLI Insurance Company	Encumbrance and Minutes Clerk	LSMO200173	\$ 5,000	12/1/12 - 11/30/13
	Treasurer	LSMO193726	250,000	7/1/12 - 7/1/13
	Superintendent of school	LSMO193723	100,000	7/1/12 - 7/1/13
	Director	LSMO193732	5,000	7/1/12 - 7/1/13

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT  
JULY 1, 2012 TO JUNE 30, 2013

State of Oklahoma            )  
  ) ss  
County of Tulsa             )

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Choctaw Nation Interlocal Cooperative School District for the audit year 2012-13.

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

By \_\_\_\_\_  
Authorized Agent

Subscribed and sworn to before me  
This 4<sup>th</sup> day of April, 2014

\_\_\_\_\_  
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2016  
Commission No. 00008621